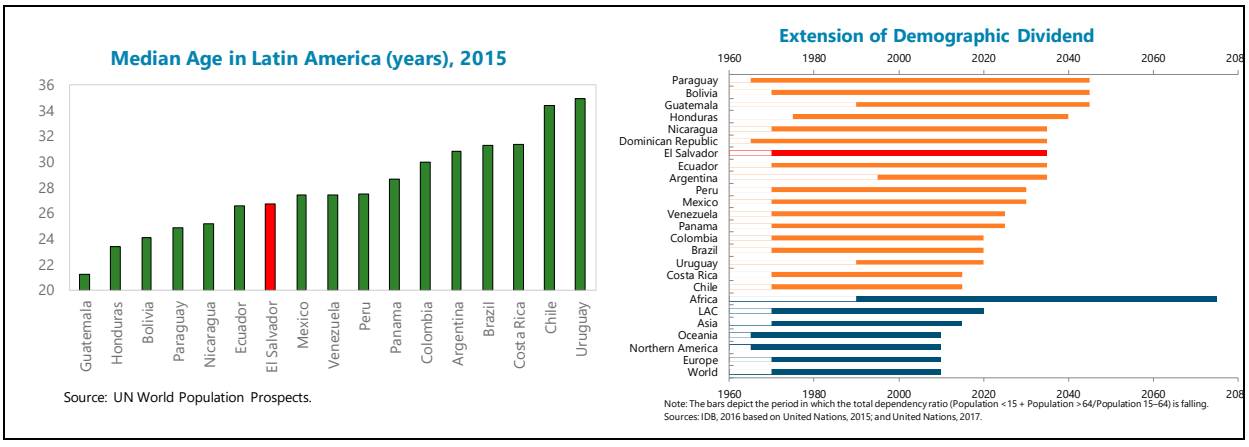
THE SALVADORIAN PENSION SYSTEM AND REFORM: AN UPDATE

Despite El Salvador's still-young population, its pension system has been marked by fiscal sustainability challenges. The transition to a defined contribution (DC) system that began in 1998 was designed to achieve fiscal sustainability. However, progress was derailed in the 2000s due to ad-hoc decisions to guarantee defined benefits, which increased fiscal costs and financing pressures. The 2017 reform provides medium-term fiscal relief and improves the system's institutional framework. However, the reform carries longer-term fiscal costs and does little to tackle the problems of low level and coverage and high inequality of benefits. Deeper reforms, including more ambitious increases in the retirement age, are necessary to decisively tackle the system's sustainability challenges. Also, fuller clarity on the government's back-stopping role is needed for bolstering confidence in the framework.

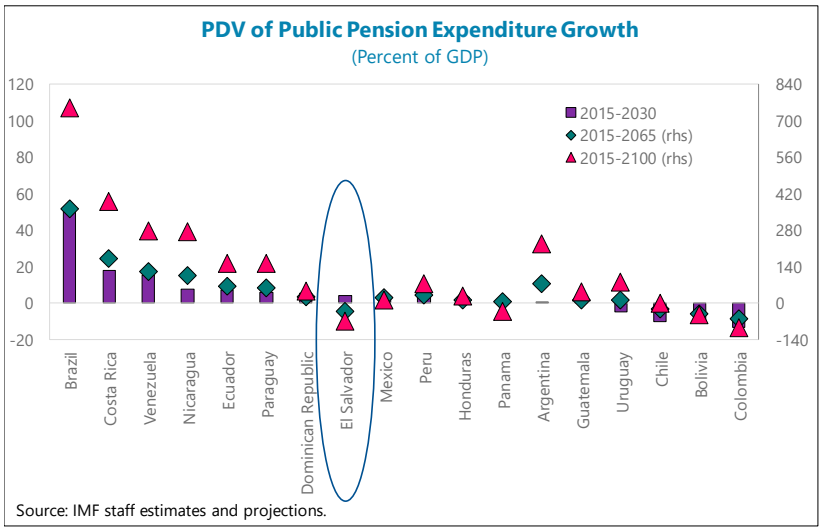
A. Background

1. El Salvador's population has remained relatively young but this is set to change. Like many other countries in the Central America, El Salvador continues to enjoy a demographic dividend. However, the population aging is set to perceptibly accelerate in the next quarter-century and beyond: the share of the population over 64 compared with the population ages 15–64 is projected to surge from 13 percent currently to 28 percent in 2050 and 69 percent in 2100. The median age would rise from 27 currently to 42 in 2050 and 53 in 2100. Emigration has also affected the Salvadorian age structure, as most of the emigrants have tended to be relatively young thereby pushing upwards the average age of those who stay behind.



2. The Salvadorian pension system initially emerged as a heavily subsidized defined-benefit (DB) scheme. In early years, due to very low contribution and high guaranteed replacement rates, the system generated pronounced actuarial and fiscal imbalances.[1] By mid-1990s, the system was already assessed as fiscally untenable.

3. In late 1990s, El Salvador embarked on a transition to the DC system that was designed to guarantee fiscal sustainability. The system was based on individual accounts managed by private pension funds, to be phased in for the younger cohorts. The phase-in process entailed fiscal "transition costs," as payroll contributions were directed away from public revenue to individual accounts, while legacy defined-benefit public pension entitlements for older cohorts were financed from the fiscal accounts. Reflecting the demographics of the older cohorts, those transition costs were expected to dissipate by 2030. Because of the switch to the DC system the long-term fiscal burden on the Salvadorian pension system was assessed as among the lowest in Latin America (see Figliuoli, 2018). It was also expected that the introduction of private individual accounts would bolster El Salvador's low labor force participation and coverage of the pension system.



4. Nonetheless, the transition to the DC system sputtered. Disappointing asset returns and the resulting public discontent led the government to grandfather early DC retiree cohorts by guaranteeing them, in 2003 and 2006, DBs that were initially reserved only for the oldest cohorts. These decisions greatly increased the transition costs, which heavily weighed on fiscal accounts and became difficult to finance by 2016-17. In parallel, the low financial returns were further depressed by the 2008 global financial crisis given the government's 2006 decision to link the returns on public pension bonds to LIBOR. This undermined confidence as benefits under the DC system were projected to fall sharply for the future cohorts who were not to be subsidized. At the same time, the labor force participation and coverage effects of the DC system turned out to be disappointing:

[1] See Lissovolik (2016) for more background information on the Salvadoran pension system.

affiliated individuals still represented only a quarter of the economically active population and the density (e.g., frequency) of worker contributions to the system was weak and declining.

5. Recognizing these problems, in 2016 the government proposed to adopt a "mixed" pension system. The key features of the proposal were: (i) transfer of more than one-half of pension-related payroll contributions and assets to the public sector; (ii) flat public pension benefits, corresponding to the (relatively high) contributory minimum pension; and (iii) a downsized DC pillar that would apply only to higher-earning contributors. The system was intended to reduce the fiscal transition costs in the short-to-medium term due to a boost in public revenues at the expense of generating significant permanent defined-benefit obligations from the large unfunded new minimum pension guarantee. Critics emphasized the questionable track record in the government's management of pension-related assets and liabilities and that the system was no longer protected from population aging. In the event, the proposal did not command political support and had to be abandoned.

6. In early-2017, the private sector reacted with its own reform proposal. The blueprint was designed as a reaction to the mixed system proposal and sought to protect the privately-managed assets from being transferred to the public sector. To make this option more palatable politically, it committed to relieve the government of a significant part of the fiscal transition costs. This was to be done mainly through re-directing part of payroll contributions—without recourse to government funds—to the cohorts that were guaranteed defined benefits. The proposal was however criticized for potentially depressing replacement rates for future DC pensioners due to reduced contribution cash flow accruing to the individual accounts. Still, many observers acknowledged the proposal's various constructive elements.

B. 2017 Reform and its Elements

7. The 2017 reform was a result of a broad-based but urgent political compromise. Negotiations accelerated in September 2017 because of the difficult financing situation projected for Q4 of the same year. The pressure was compounded by adverse investor sentiment and ratings downgrades that followed the April 2017 missed payment on pension bonds. In a final compromise achieved on September 29, the private sector's proposal served as the basis for the changes to the law, but further significant last-minute modifications were added, mainly to provide government-backed guarantees to augment the total amount of contributions accruing to the individual accounts. The law enjoyed strong backing across the political spectrum, with 71 of the 82 congressmen voting in favor.

8. The September changes to the pension law are complex and involve the following key elements. First, the reform re-calibrates pension system's cash flows to increase the aggregate flow of payroll contributions to the system, raise pension fund returns, provide fiscal relief, and pay some of the public system's transition costs. Second, it changes the pension benefits, mostly to ameliorate the large gap between the guaranteed defined benefit and defined contribution-based pensions. Third, it envisions various institutional changes aimed at improving the management, financial

viability, and political attractiveness of the system. Finally, it spells out specific channels through which government guarantees would be provided to the system. The detailed reform measures include the following:

Re-calibration of Cash Flows:

- an increase in the pension payroll contribution rate from 13 to 15 percent to raise the flow of resources within the system;
- a (marginal) cut in the pension fund fees in the DC system (initially from 2.2 to 2 percent in 2018 and to 1.9 percent starting from 2020);
- a diversion of 5 percentage points of payroll contributions from individual account holders to a privately managed solidarity guarantee account (SGA), of which 3 percentage points would be temporarily diverted, while 2 percentage points would be set aside permanently to finance longevity benefits;

El Salvador: Main Parameters of the Pension System
(Percent of payroll, unless otherwise noted)

	Prior to 2017 reform	After 2017 reform
Social contributions	13	15
Pension funds commissions	2.2	1.9
Individual accounts 1/	10.8	8.1
Collective fund 1/		5
Longevity benefits		2
Payment of DBs 1/		3
Retirement age (years) 2/	55/60	55/60

Source: Salvadorian authorities.
1/ 3 percent of payroll would be (temporarily) diverted from individual accounts to the collective fund to pay for DBs on a declining schedule, to be fully phased out by 2050. The government committed to reimburse the diverted contributions to account holders with ineterest.
2/ An increase in retirement age would be considered in 2022.

- use of the SGA to pay some of the public DBs to those who benefitted from top-ups in the 2000s having opted for the private system (*optados*), the DC system's minimum pension guarantee, and longevity benefits;
- a higher interest rate on government pension bonds to support pension fund returns (the nominal interest rate on new issuances would be 6 percent, while the interest rate on the old stock would gradually increase from 2.5 to 4.5 percent between 2018 and 2022);
- a grace period (either 3 or 5 years for old bonds) and a lengthening of the maturity of the pension bonds (from 25 years previously to 30-50 years) to help government cash flow in the medium term.

Changes in the Level and Other Parameters of Pension Benefits

- reductions in guaranteed defined benefits for the *optados* who have yet to retire (their pension would be capped at 55 percent of the "basic wage" instead of around 68 percent previously);
- cap on the maximum pension for the *optados*, at USD 2,000 per month;
- a progressive levy, of between 3 and 10 percent depending on the amount, on existing pension benefits with proceeds from the levy accruing to the SGA;
- more stable pension benefits in the DC system over time through changes to the method of their calculation (the individual pension levels would no longer be declining during the

retirement phase, but would be kept stable in real terms and further supported by longevity benefits);

- new options for regular pension benefits for those who contribute less than 25 full years (beyond the only prior option of lump-sum withdrawal, those who contribute between 10 and 25 years could opt for periodic pension benefits).

Institutional Changes

- an actuarial committee tasked to help ensure long-term financial sustainability of the system, including through the envisioned mechanism for small increases in the retirement age (up to a maximum of one year every 5 years, starting from 2022);
- improved processes and data enhancements for payroll collections;
- a risk committee to help improve the returns and diversification of investments;
- enhanced analysis and reporting requirements, including periodic actuarial studies of the system's long-term financial sustainability;
- additional options and financial intermediaries for diversifying pension fund investments;
- an option of anticipated withdrawal from pension accounts (up to 25 percent of balances) by eligible individuals that can be used for current consumption.

Government Guarantees and Resources

- a permanent allocation of 2.5 percent of current revenues (about 0.5 percent of GDP) starting from 2020 (with temporarily smaller allocations, of 1.7 and 1.8 percent of revenues in 2018 and 2019 respectively) in the central government budget to pay public pension benefits and back-up government liabilities;
- reimbursement from the budget of 3 percentage points of payroll contributions that are diverted to the SGA to pay defined benefits to account holders upon their retirement, together with a return equal to that earned by the conservative fund in the system;
- reimbursement of a portion of the return on longevity benefits to those who take lump-sum withdrawal;
- a government guarantee to cover SGA operations should the latter run deficits;
- continuation of issuance of pension bonds to provide additional resources for legacy publicly guaranteed defined-benefit pensions.

9. The reform's implementation is still ongoing, as it depends on follow-up by-laws and on how several new institutions would begin functioning. The central bank was tasked to

operationalize implementation of several steps, including (i) accounting, reporting, and governance procedures for the SGA, (ii) modalities of anticipated withdrawal from the individual accounts, (iii) upgraded accounting norms for the pension funds, (iv) calculation of technical requirements that are needed to determine pension rights under the new system, as well as several other regulations. The financial sector super-intendency also participated in the drafting of some of the new regulations. While most of the by-laws were enacted by early-2018, institutions such as the actuarial and risks committees still needed to be made fully operational.

C. Effects of the 2017 Reform

10. The reform has substantial, and complex, effects on the government's fiscal position as well as pension benefits and coverage. The fiscal effects can be de-composed into two main blocks: (i) effects from the re-distribution of the financial flows in the system – these effects are generally favorable for fiscal accounts in the short-to-medium run and become unfavorable in the longer run, mainly because of the government guarantees that were attached to some of the decisions; and (ii) effects from underlying changes to the main parameters of the pension rules, including cuts in defined pension benefits and parametric reforms (prospective increases in the retirement age and the increase in the overall payroll contribution rate) – these effects are favorable for fiscal sustainability, and while initially they are very small, their impact is progressively increased going forward.

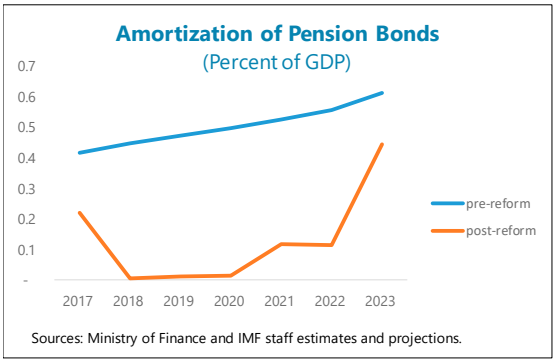
Table 1. Taxonomy of Fiscal Effects from the Reform

	Above the line (impact on the deficit)	**Below the line (impact on financing)**
Short-to-medium term (10 years)	Diversion of contributions to pay DBs (+) Reductions in DBs (+) Levies on pension defined benefits (+) Changes in interest rates on pension bonds (ambiguous for the old stock of bonds, (-) for the newly-issued bonds)	Grace period and longer maturity of pension bonds (+) Availability of inflows earmarked for longevity benefits to finance other liabilities (+)
Longer-term	Reimbursement of diverted contributions (-) Higher interest rate on pension bonds (-) Lower interest payments because of the lower projected stock of pension-related debt (+) Reduced risks of recourse to the minimum pension (+) Potential liability for longevity benefits (-) Increases in the retirement age that reduce liability for longevity benefits (+) Potential liability for the overall deficits of the SGA (-)	Effects ambiguous and depend on the more precise timeframe, with significant uncertainty in the estimated effects

Note: + indicates a favorable effect for the fiscal accounts relative to the pre-September 2017 situation.

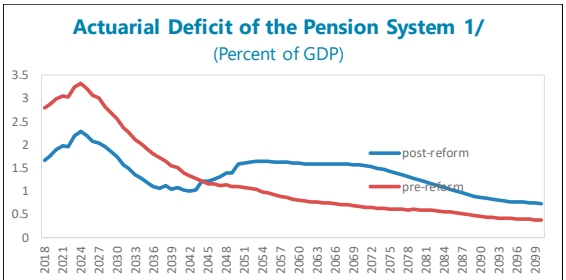
11. Short-to-medium-term effects on the fiscal deficit. The diversion of social contributions to the SGA (3 percent of payroll in the first 10 years, or 0.7 percent of GDP annually) for paying public defined benefit pensions makes the largest immediate impact on reducing the fiscal deficit. While the operation entails a longer-term fiscal liability at the time when the individuals retire and receive pension rights, it is not classified as borrowing given that it does not generate survivorship rights.[2] Other fiscal savings from the reform (reductions in defined benefits, levies on pensions, and savings on the minimum pension guarantee) are initially estimated to be relatively small (less than 0.1 percent of GDP combined, annually). The change in the interest rate on pension bonds appears to have limited immediate effects: thus, the interest rate on those bonds was set at 2.5 percent for 2018, broadly in line with expected pre-reform interest rates that were based on LIBOR. Thus, total savings are estimated at around 0.8 percent of GDP annually in the first few years after the reform.

12. Short-term effects on fiscal financing. In addition to the fiscal savings that result in a lower deficit, the reform provides short-term below-the-line financing relief. The grace period on old pension bonds (formerly called CIPs) contrasts with the counterfactual of steadily increasing principal payments that were due on those bonds before the reform, generating savings of around ½ percent of GDP annually in those years. The lengthening of the maturity of pension bonds would also limit principal payments beyond 2020 relative to the counterfactual. Further, in addition to the 3 percent of payroll, the SGA could finance certain pension system obligations defined by law from inflows corresponding to the 2 percent of payroll (0.4 percent of GDP) contribution to longevity benefits, given that longevity-related spending obligations are projected to be backloaded (becoming significant by around 2040). Overall, the financing effects are favorable in 2018-23 and would be in the range of ½ to 1 percent of GDP annually but would vary by year.



Sources: Ministry of Finance and IMF staff estimates and projections.

13. Longer-term fiscal effects. The impact of the reform needs to be derived from a comprehensive analysis of all key flows in the system. The counterfactual is the pre-reform baseline scenario whereby the long-term fiscal burden of pensions is expected to decline as the DC system is fully phased in. Several actuarial studies have been prepared or are underway to



Sources: Fund staff estimates based on the acturial report of Melinsky, 2017.

1. Actuarial deficit is similar but not exactly the same as pension-related fiscal deficit due to methodological differences in the two concepts.
It is assumed that real GDP growth is 2.2 percent (estimated potential growth) over the entire horizon and ther is no inflation. These calculations could be further refined with more granular data and improved consistency between actuarial models and macroeconomic assumptions.

[2] The government's obligation to guarantee reimbursement of the diverted contributions would not materialize in cases of death of affiliated individuals (whether it occurs before or after their retirement).

assess the reform's overall effects.[3] The studies differ significantly in some of the results and have methodological weaknesses, including: (i) difficulty to integrate pension-related flows with a fully-consistent set of macroeconomic projections; and (ii) incomplete accounting of pension-related fiscal liabilities (interest on pension debt is not included in the analysis of most actuarial reports). Furthermore, making reliable projections is especially difficult because they hinge on the interaction of economic conditions and individual behavior (e.g., whether to work toward a full pension or take a lump-sum withdrawal option) over a long future horizon. Still, there are several points of convergence of the actuarial studies:

- The reform would **reduce the fiscal costs over the next quarter-century** mainly because of the lower need for public spending on some of the defined-benefit pensions, which will be paid by the SGA.

- However, **after around 2040, the reform would increase the costs** of the pensions system, as the SGA's 3 percent of payroll contribution would be phased out while costs would be higher, mainly due to (i) the increase in liabilities deriving from the government guarantee to reimburse the flows accruing to the SGA and (ii) growing liability for longevity benefits of the SGA and potentially the government, which backstops it.

- Still, the actuarial studies, which incorporate the above effects, imply that the **overall long-term fiscal costs of pension benefits will likely be contained** (e.g., below 2 percent of GDP annually)[4] – barring major economic under-performance (e.g., real GDP growth well below the estimated potential rate of 2.2 percent) or ad-hoc decisions (like in 2003 and 2006) to increase benefits at the expense of the budget.

14. Rules and implications for the fiscal backstop. As described above, the reform envisions several channels through which the government could provide resources and guarantees to the pension system. There is however substantial uncertainty whether, and in what measure, such channels could be activated. This uncertainty reflects differences in the actuarial projections, but also the lack of clarity on the scope and sequencing of these operations envisioned in the framework. Key not-fully-settled issues include:

- **Potential deficit of the SGA.** Actuarial studies differ in that preliminary projections elaborated by the private pension funds indicate that the SGA would not run any deficits in the future. At the same time, other projections (Melinsky, 2017) suggest that this government

[3] The studies include those of FUSADES (2017) and Melinsky (2017). In addition, the pension fund industry (Asafondos) and the financial sector superintendency (SSF) have been elaborating own actuarial studies, whose full results were not available at the time this Selected Issues paper was issued. The SSF study has a key advantage of relying on a granular individual-specific database for the calculations, while most other studies employed simplifying assumptions that may further reduce the reliability of results.

[4] This conclusion is preliminary until an actuarial report can be elaborated that is fully integrated with a macroeconomic framework.

guarantee is likely to be triggered relatively soon, putting more of a spotlight on this key policy issue.

- **Scope of government guarantees.** The law contains references to specific public government guarantees, but does not fully clarify whether the budget allocation of around ½ percent of GDP would effectively cap spending on all or some of the guarantees, or if more resources could still be provided through other mechanisms. The law acknowledges that the allocation could clearly be exceeded to pay "legacy" defined benefit pensions, but does not clarify if it can be exceeded for other purposes.

- **Sequencing of fiscal backstop operations.** When discussing the dedicated allocation from the budget, the pension law (Article 224) mentions several intended uses, such as (i) payment of "legacy" public pension benefits; (ii) payment of minimum contributory pensions; and (iii) reimbursement of government guarantees related to the diverted contributions and lump-sum withdrawals. It is however unclear if the order in which these uses are mentioned would be a factor in prioritizing these uses should the aggregate allocated amount prove to be constraining.

15. Pension adequacy. The 2017 reform aims to address the problem of low level of DC-based pension benefits, but the effects are likely to be relatively modest and backloaded. The main channels for achieving this are (i) a higher interest rate on pension bonds, which, over time, would increase returns on individual accounts; (ii) a recalibration of the method of calculating pension benefits (making overall pension benefits more stable and slightly higher) and (iii) the slightly increasing allocation of total funds that accrue to individual accounts (including those guaranteed by the government), from 10.8 to 11.1 percent of payroll. Still, preliminary calculations suggest that the replacement rates in the DC system would increase relatively modestly and would, at least for a few initial years, be in the 25-40 percent range, given the low replacement rates observed to date for the first cohort of unsubsidized DC pensioners that already retired in 2017 (e.g., women born in 1962). In this light, pension adequacy would remain an important challenge going forward.

16. Coverage of the pension system. The reform is unlikely by itself to significantly raise the poor coverage in the system, which is a function of low formal labor market participation. At the same time, the new options that allow individuals with less than 25 full years of contributions to receive stable pension income and public health care services, could incentivize better coverage of the pension system. There is however a risk that the proportion of such individuals would be small as evidence suggests that such "low-density" contributors favor the option of lump-sum withdrawal of their pension account balances. And while the option of anticipated withdrawal of pension account balances for current consumption may increase the attractiveness of the individual account-based system, it would defeat the overarching purpose of incentivizing saving over consumption.

17. Overall, the reform the DC pension system is a step that on balance improves fiscal sustainability in the context of projected population aging. A key risk from past decisions to top up benefits was that the DC system was becoming untenable, because (i) the system already was a financing strain on the budget and (ii) future pension levels under pure DC rules were looking to be

too low to be politically acceptable. The reform lessened these risks by addressing funding bottlenecks and most of the extra costs imposed by the ad-hoc decisions to grandfather the early DC cohorts. In parallel, the system includes several measures that would help increase the attractiveness of future benefits under the DC system, though these effects will likely be modest. The large bipartisan support for the reform suggests that the DC system's viability has been reinforced, at least for now. The emergence of additional long-term fiscal liabilities is of some concern, but these appear to be relatively contained and backloaded.

D. Avenues for Further Improvement

18. While the 2017 reform is a good step, some key issues remain to be tangibly addressed. This regards potential surprises in longevity benefits, problematic pension levels, low benefit coverage and inequality, and insufficient certainty of provision of pension benefits. There is thus scope to pursue deeper reforms to further strengthen the fiscal sustainability and broader confidence in the system. These could focus on:

- **Increasing the retirement age.** The retirement age has been unchanged for over 2 decades and is among the lowest in the region. A modest increase in it (by a maximum of 1 year) is considered only in 2022, with further envisioned increases capped at 1 year for each future 5-year period. More ambitious and frontloaded increases could help improve future replacement rates in the DC system, as well as limit fiscal contingent liabilities arising from the SGA operations due to longevity benefits.

- **Improving benefits coverage for the poor and vulnerable.** As discussed above, the changes to the law could improve coverage only among contributors to the system, and would not help the most vulnerable segments of society that are not affiliated in the system. More broadly, the DC-based model of a pension system can make only very limited progress in tackling the inequality of pension benefits, as it does not entail significant mechanisms for re-distribution. Better distributional outcomes and old age security among the vulnerable could be enhanced via gradually expanding the non-contributory basic pension, which is relatively modest ($50 per month, a quarter of the contributory minimum pension). The total cost of this pension to all individuals over 70 is estimated at around 0.8 percent of GDP annually, but coverage could be expanded gradually starting from the lowest income categories at a much more modest cost.

- **Enhancing cost-efficiency.** Pension fund fees are still too high and should be reduced given the low risk profile of their investments (mainly government bonds). At the same time, anticipated withdrawal of balances for current consumption should be closely monitored and re-considered should it represent significant administrative and other costs to the system.

- **Effective backstopping from the budget.** The solvency and liquidity of the pension system ultimately hinges on the budget. The envisioned budget allocation (of about ½ percent of GDP annually) alone would be insufficient to cover pension obligations in most years, while the broader fiscal guarantee mechanism is yet to be fully clarified. To ensure credibility and

trust, and to minimize any potential costs arising from disputed claims and associated uncertainty, the pension system accounts should be transparently integrated in fiscal decisions, with full costing of their implications. The actuarial and risk committees and requirements for actuarial reviews created by the recent reform offer a promising basis for better transparency and decision-making along those lines, but progress would hinge on the efficiency of those institutions and processes.

19. Cross-country experience suggests that there is no scope for procrastination in the pension-related reform agenda. Sustainable solutions to pension system's problems (e.g., parametric reforms such as raising the retirement age) are best to be implemented early as they take time to receive political and social backing and yet much longer (a decade or more) to yield macro-relevant effects. In this regard, potential risks from underestimating fiscal costs from new longer-term liabilities from government guarantees and longevity benefits need to be monitored closely, with a view to promptly roll-out measures to effectively deal with the remaining sustainability risks.

Table 2. El Salvador: Pension System Structure (after September 2017)

	Sources of funds	Qualifying conditions	Benefits	Coverage	Administrative
0 pillar	Budget, program cost is less than 0.1 percent of GDP.	70+ years of age, residing in municipalities with extreme poverty and not receiving any type of pension benefit.	$50 per month, or about a quarter of the minimum contributory pension.	8 percent of population of 70+—a small fraction of total population.	Administered in municipalities (with means-testing against a social assistance package).
1 pillar (being phased out)	Initially mostly from the budget, since 2006 mandatory borrowing from pension funds. Ultimately the budget is responsible for backstopping. Compulsory contributions of 15 percent of payroll play only a small supplementary role.	Born before (April 15) 1962, 25 full years of contributions; age at least 55 for women and 60 for men (excludes those born between 1943 (men) / 1948 (women) and 1962 *and* who opted for a private system, see below).	Benefits a proportion of the last 10 years of a "basic regulatory wage." Replacement rate estimated at about 65-70 percent (recently reduced to 55 percent of "basic regulatory wage").	The number of active contributors is very small (less than 10,000). About 100,000 pensioners amount to less than 2 percent of the total population.	A special institution (FOP) oversees financing, together with ISSS and INPEP, which manage administrative issues.
2 pillar (core pension system)	Compulsory contributions (15 percent, of which 1.9 percentage points are fees and 5 percentage points diverted to finance SGA) and returns on pension fund assets (accumulated contributions and recognition bonds). Since 2018 defined benefits of those born between 1943 (men) / 1948 (women) and 1962 and the minimum pension are financed by the SGA.	Born after (April 15) 1962, 25 full years of contributions; age at least 55 for women and 60 for men; early retirement possible if accumulated contributions are sufficient to finance a pension 60 percent above a minimum pension. Also includes most individuals born between 1943 (1948 for women) and 1962 who opted for the private (2 pillar) system.	Pension is equal to a portion of assets for the first 20 years supplemented by longevity benefits thereafter. Minimum pension, is currently $207.6 per month. Replacement rates expected to fall to 40 percent or below after the system is phased in. The older cohort receives defined benefits (recently reduced to 55 percent of "basic regulatory wage").	A quarter of affiliated individuals are paying contributions and yet fewer are expected to get pension benefits. Those who contribute less than 25 years get a lump sum payment (equal to cumulative contributions plus interest).	Two private pension funds compete for contributors and administer individual accounts. Restrictions on asset allocation are important (floor for investing in government bonds; ceiling for investing in different instruments, including abroad). Actuarial and risk committees are in the process to be created.
3 pillar	Voluntary contributions.	Mostly work as top-ups to pillar 2.	Pension benefits are equal to an income stream from assets (tax incentives apply).	Negligible.	Pension funds.

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