



# **SUPERINTENDENCIA**

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## **DE BANCA, SEGUROS Y AFP**

República del Perú

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# **Peruvian Private Pension Fund System : Recent development: Pay-out phase**

February, 2018

# Peruvian Pension System: Main features

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## **1. PENSION SYSTEM**

**a) Zero Pillar :** Pension 65 (mean tested)

**b) Contributive pillars :**

- Public DB pension system: 13% of monthly income
  - Private DC pension system): 10% + insurance prime + fee
- Both system competes for new entrants.

## **2. PRIVATE PENSION SYSTEM**

- ◆ Started off in June 1993 under a Defined Contribution scheme.
- ◆ As of December 2017, 6.6 million of workers enrolled in the Pension System.
- ◆ Since 2005, Pension managers provide 4 sub-funds, with different risk profile: aggressive - ultraconservative. Default options.
- ◆ Pension fund reached US\$ 45 billion, with an annual real return of 7.4% (Fund 2, Dec 2017) since 1993. This represents 23% of GDP.

# New pay-out phase

## DC private pension system

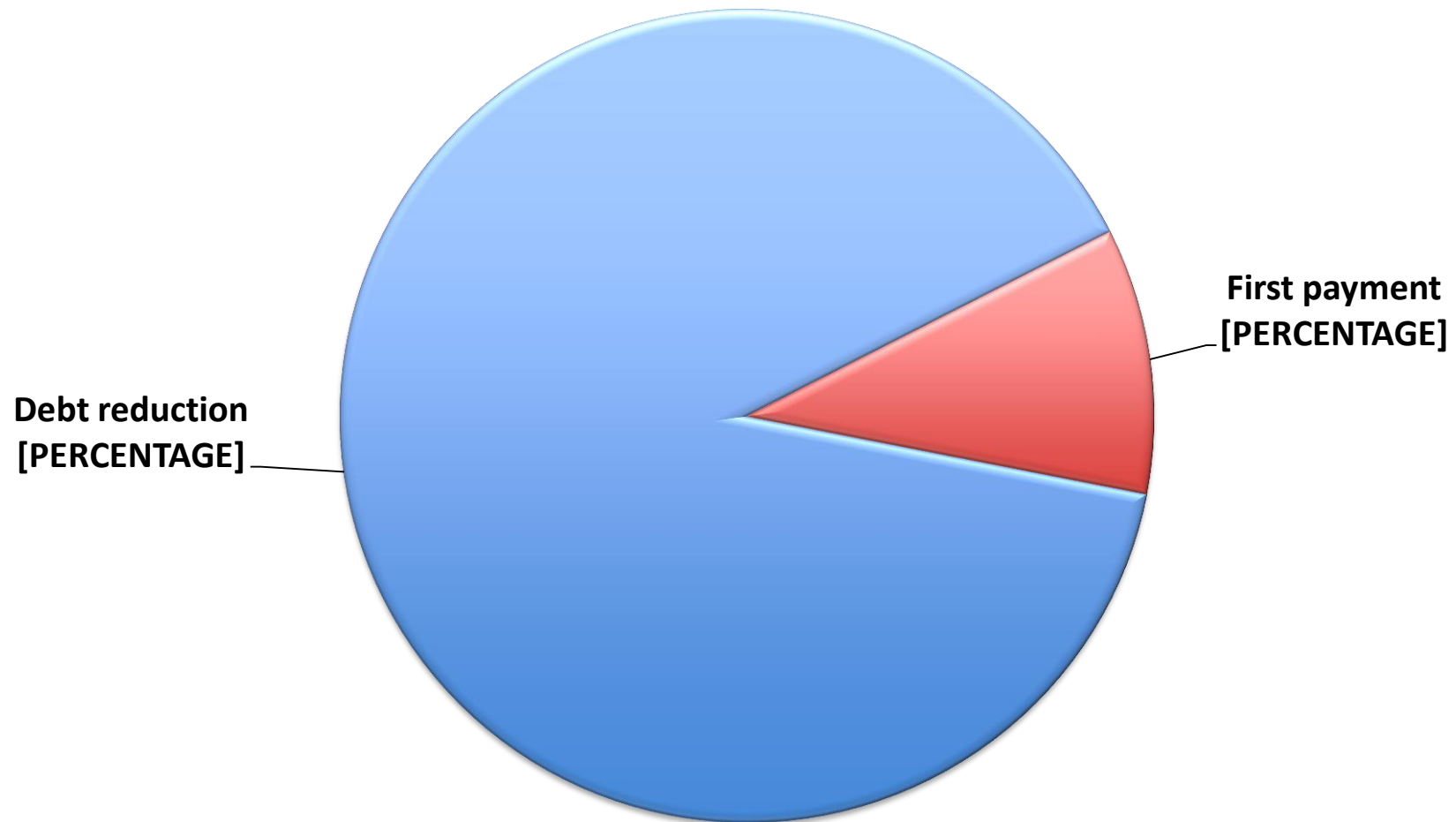
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- In 2016, Peruvian Congress approved Laws 30425 & 30478.
- Those amendments allowed affiliates to withdraw from private pension saving:
  - a) **First home-buying process:** Up to 25% to reduce mortgage loan or cash payment to qualify for mortgage loan.
  - b) **Alternative for retirement:** Up to 95.5% when the affiliate reach the legal age of retirement (65 years old), or qualifies for anticipated retirement or has a programmed withdrawal as a retirement pension.

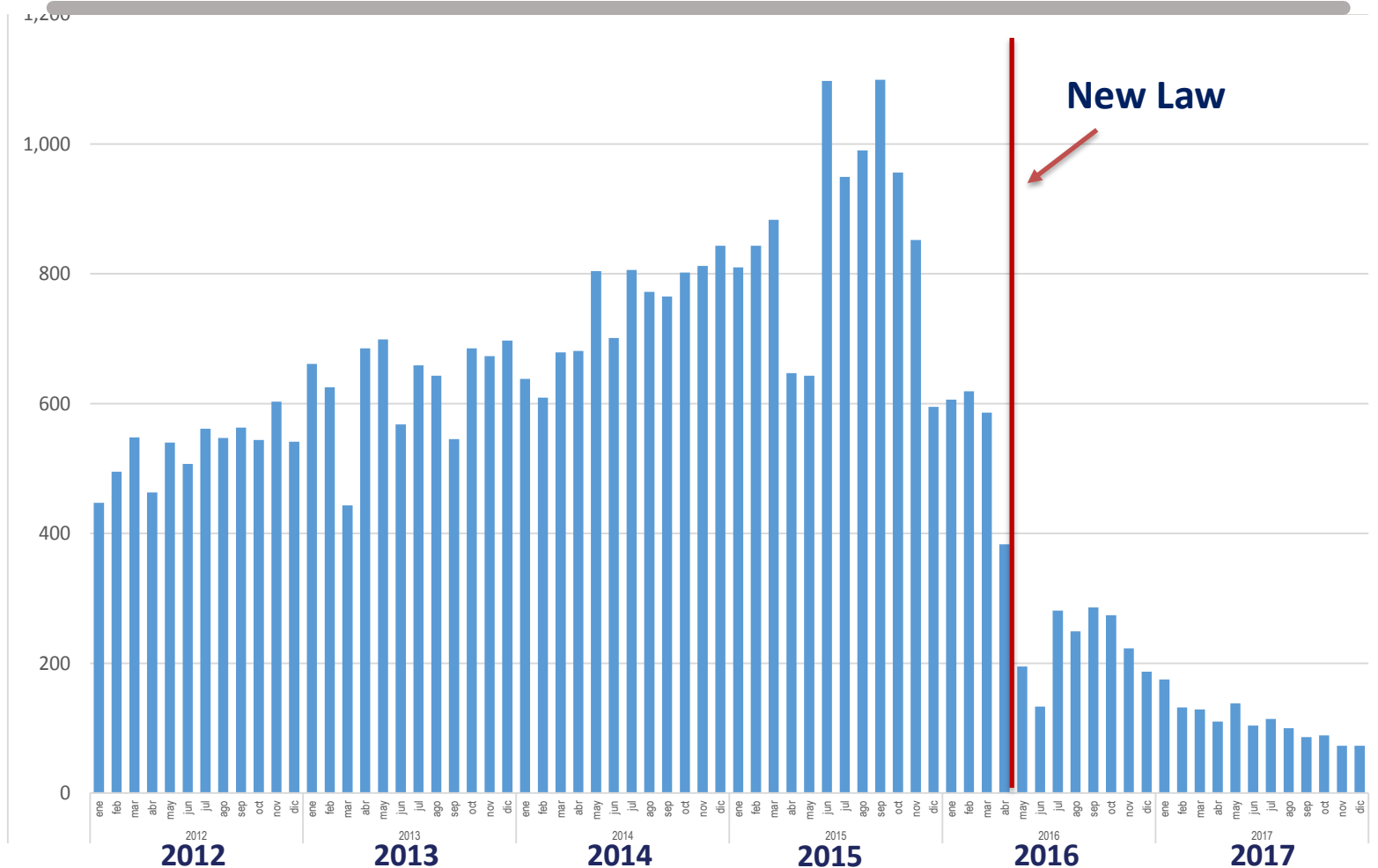
## a) Withdraw for first home-buying process

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As of December 2017, 57 048 affiliates withdraw USD 60 million: 0.1% of pension fund



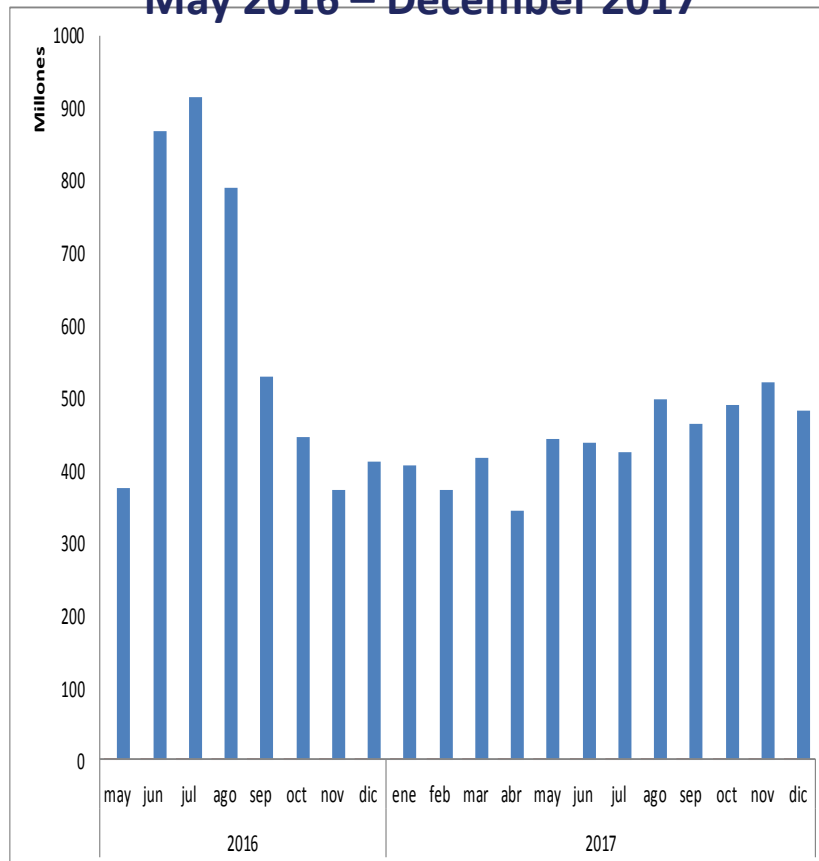
## b) Impact on retirement: Monthly evolution of Annuity market 2012 - 2017



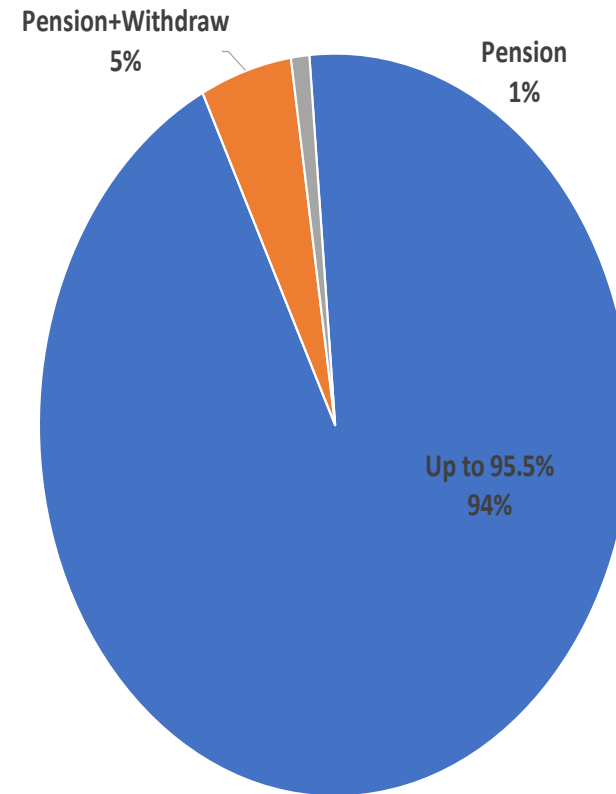
**The annual demand for annuities decreased from 10 300 in 2015 to 4 000 in 2016, to 1 300 in 2017**

# Withdraw of cash balance represents 94% of preferences for retirement

Monthly withdrawals - Retirement  
May 2016 – December 2017



Preferences for retirement  
December 2017



# Current supervisory approach

## On-going projects and challenges

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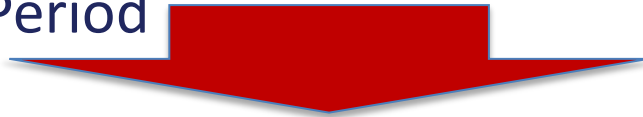
- Pension supervisor conducted surveys(since 2015), quantitative and qualitative approach, focused on aging population: profile, preferences, quality service.
- Design a new pension/annuity procedure for future retirees. Better service:
  - a) **Reduce number** of annuity alternatives: from complex and large number of alternatives to basic products
  - b) **Simplify retirement process** : improve operational process, partial and preliminary pension (fast-track), flexibility based on programmed withdrawal .
- Improve communication campaigns

# Reduce number of alternatives for retirement

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## Current situation

- Programmed Withdrawal
- Life Annuity
- Programmed Withdrawal + deferred Life Annuity US\$/S/
- Combined Life annuity two currencies: local currency + USD
- De-escalating annuities
- Additional monthly payments in July and December
- Guaranteed Period



Reduce number of products (based on consumer preferences), and focus on products as Programmed Withdrawal with Flexible Deferred Annuity.

**Thank you**