

Providing pensions for informal employment in developing countries: Challenges and opportunities for policy makers Peru

Elio Sánchez Chávez
Deputy Superintendent of AFP
Superintendency of Banking Insurance and Private Pension
Funds Administrators

October, 2023



Content



Background: Main features Peruvian pension system



Coverage: Self employed and informal workers



Challenges: Improve coverage



Final remarks

I. Background:

Main features Peruvian pension system

Peruvian Pension System: Main features

1. PENSION SYSTEM - PERU

a) **Non contributive - 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

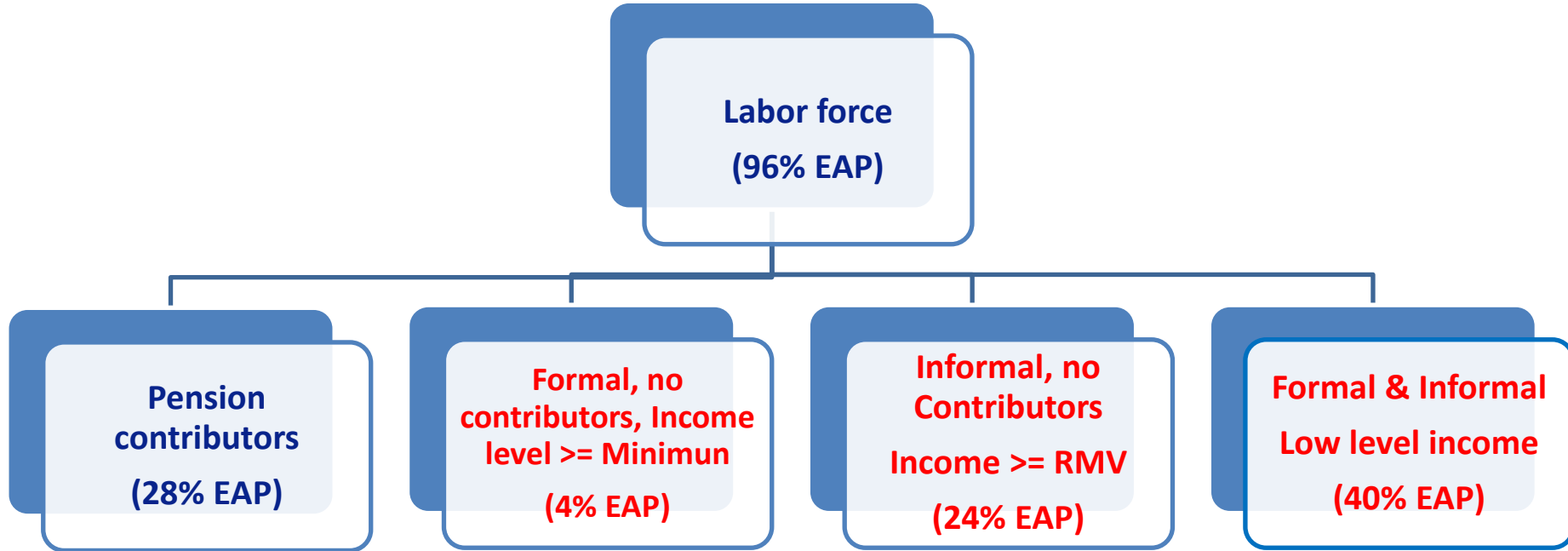
Both systems compete for new entrants.

2. PRIVATE PENSION SYSTEM

- ◆ Started off in June 1993 under a Defined Contribution scheme.
- ◆ As of September 2023, 9.1 million of workers enrolled DC Pension System.
- ◆ Since 2005, pension managers provide 4 type of funds, with different risk profile: aggressive, conservative, ultraconservative, and default option.
- ◆ Pension fund reached US\$ 31.5 billions, with an annual real return of 6% since 1993. This represents 12% of GDP. (Aug.23).
- ◆ Benefits: annuities, programmed withdrawal and lump sum (since 2016).

II. Pension Coverage - Peru

Informality explains the low coverage in Perú

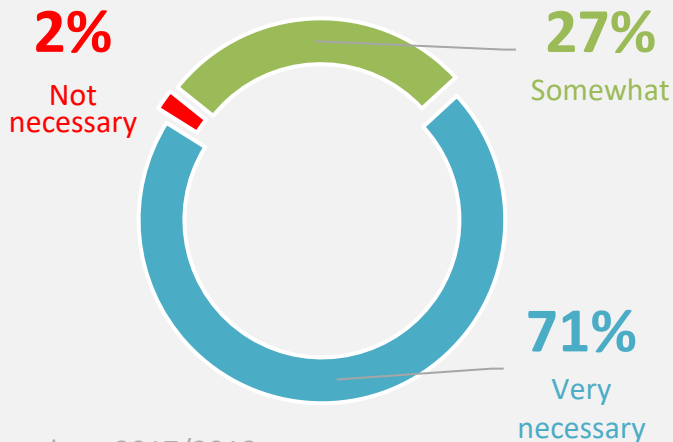


Informal sector with low-income levels
High transition between formal and informal sector

¿How are Peruvian workers saving for retirement?

Savings are important, unfortunately no action is taken for retirement

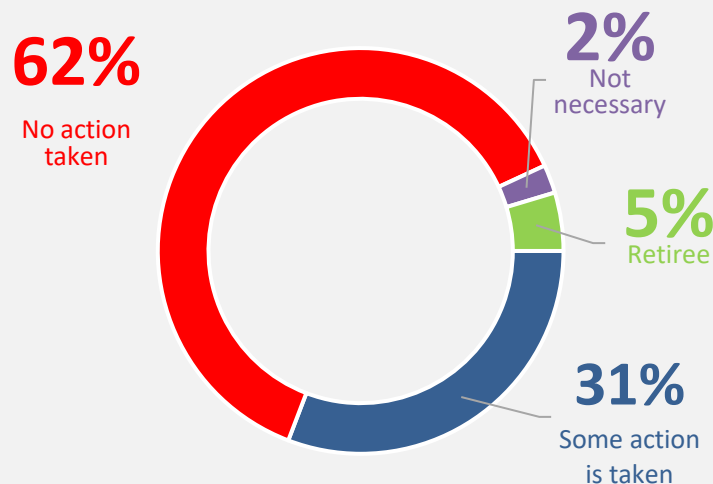
Almost everyone recognizes it's necessary to save for old age



Survey data: 2017/2018



However, 62% does not take any action to do so

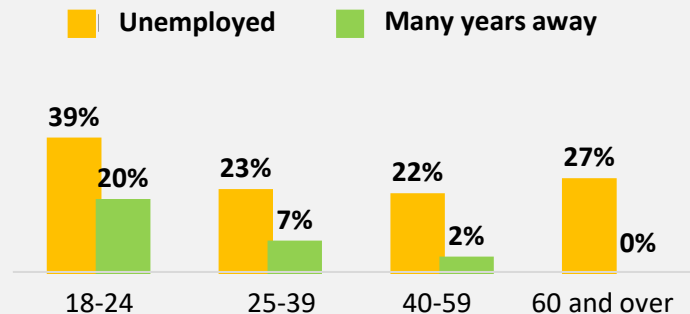
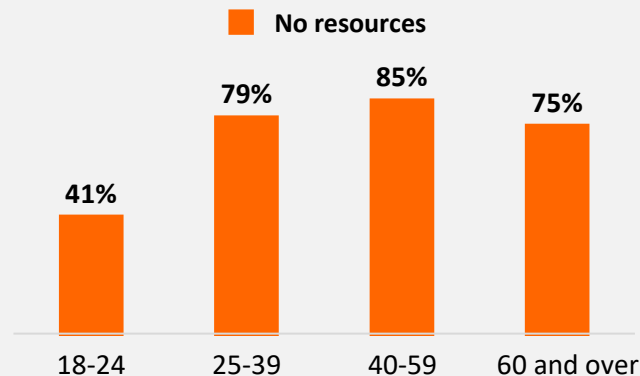
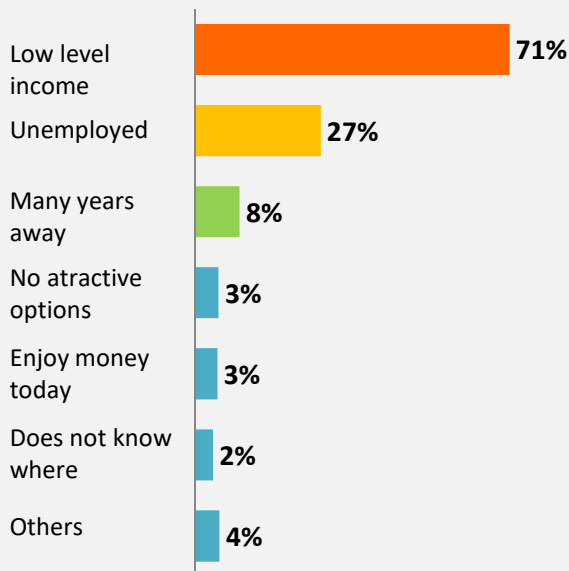


Who does not save for old age?: Young and low-income workers

Lack of resources and low access to the labor market are the major obstacles for saving

Multiple choice

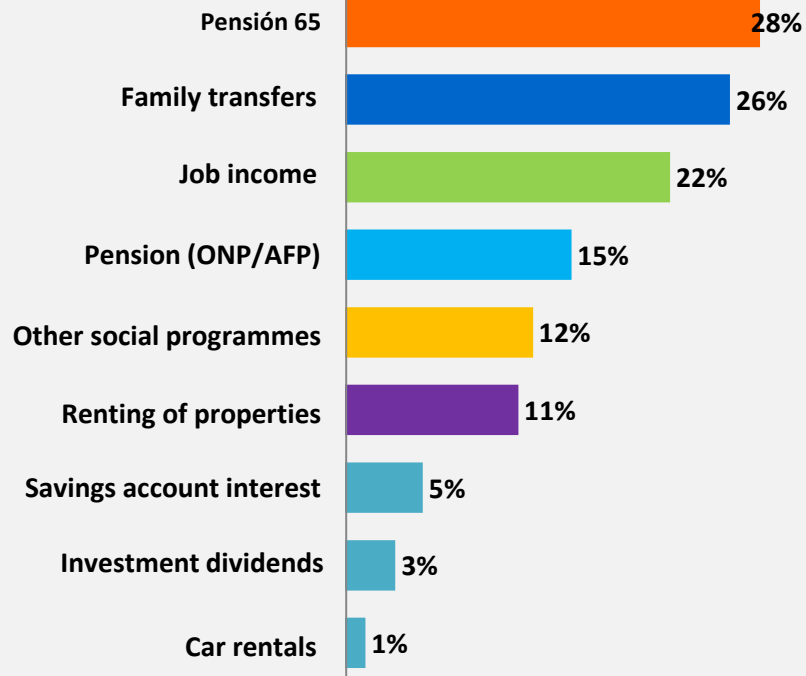
Why do you not save for old age?



Government and family would be the main source of income

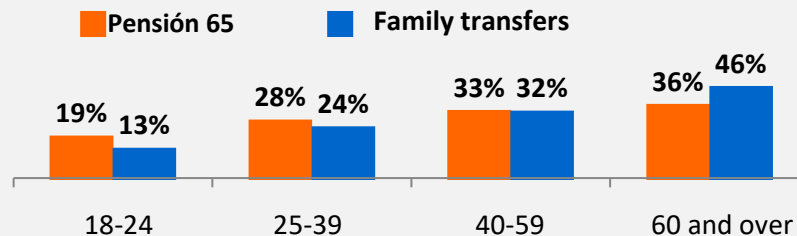
What do you think will be your source of income at old age?

Multiple choice

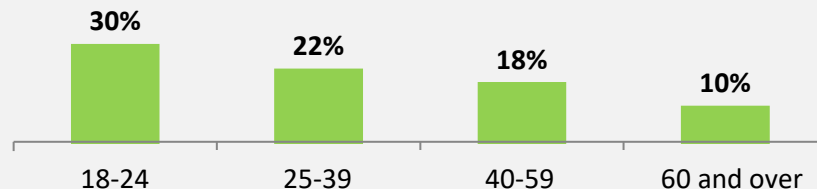


Source: Survey on long-term savings strategies 2017.

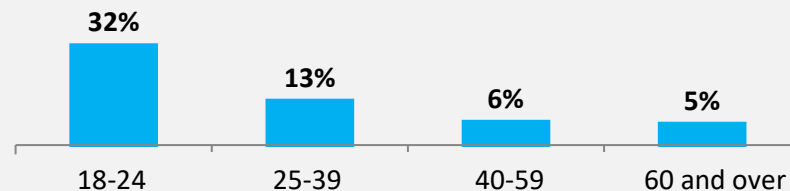
Multiple choice



Income



Pension (ONP/AFP)



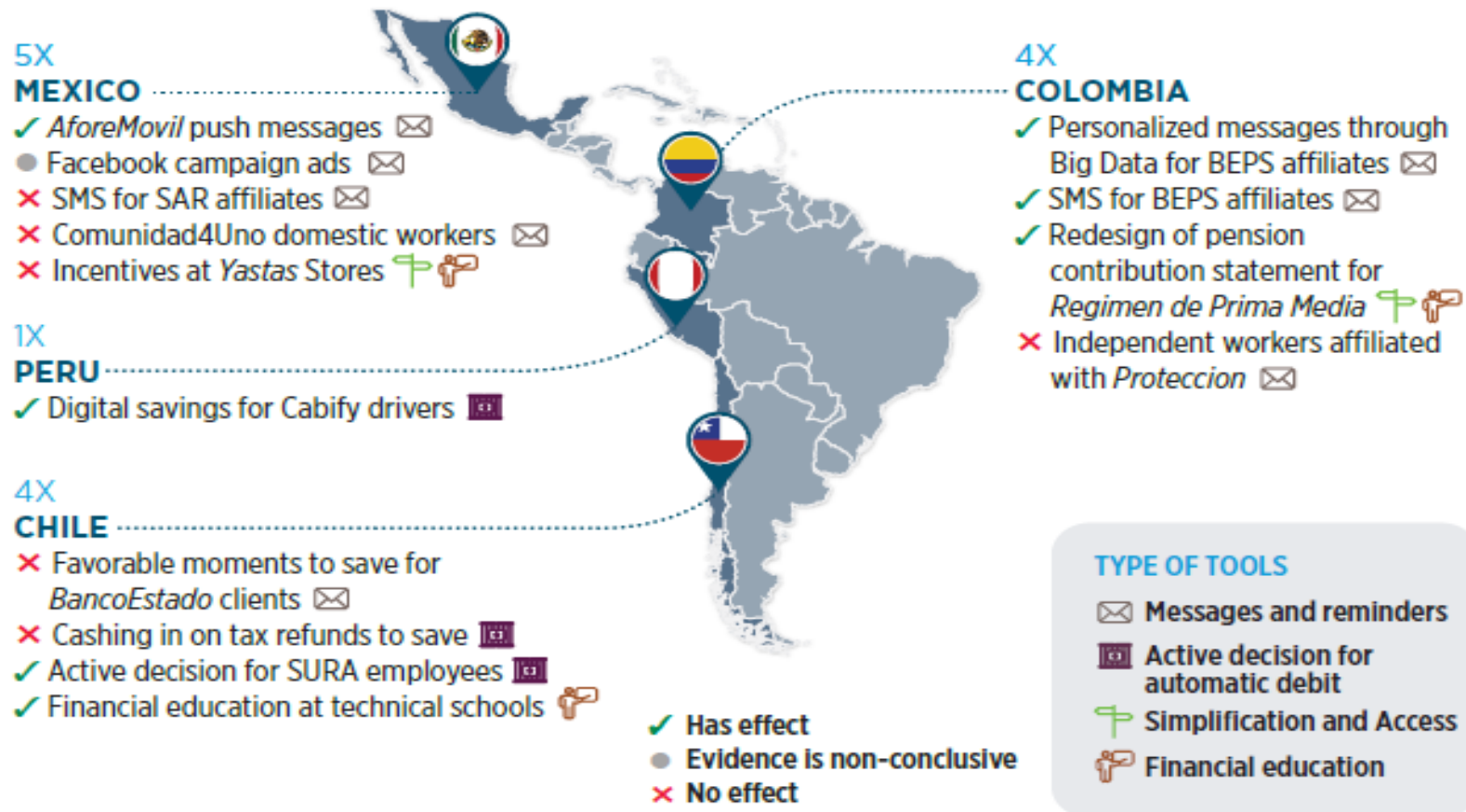
III. Challenges: Improve coverage

Voluntary retirement saving barriers

Demand-side	Supply-side	Regulatory
Limited capacity for saving	Lack of incentives for encouraging low-income and self-employed workers to save	Regulatory framework designed for formal sector
Behavioral biases	Administration fees for managing voluntary savings or micro-contributions	Lack of regulatory incentives for informal or low-income workers.
Lack of liquidity	Lack of adequate mechanisms for making voluntary savings	
Lack of financial and pension literacy	Managers have scarce knowledge about informal workers	

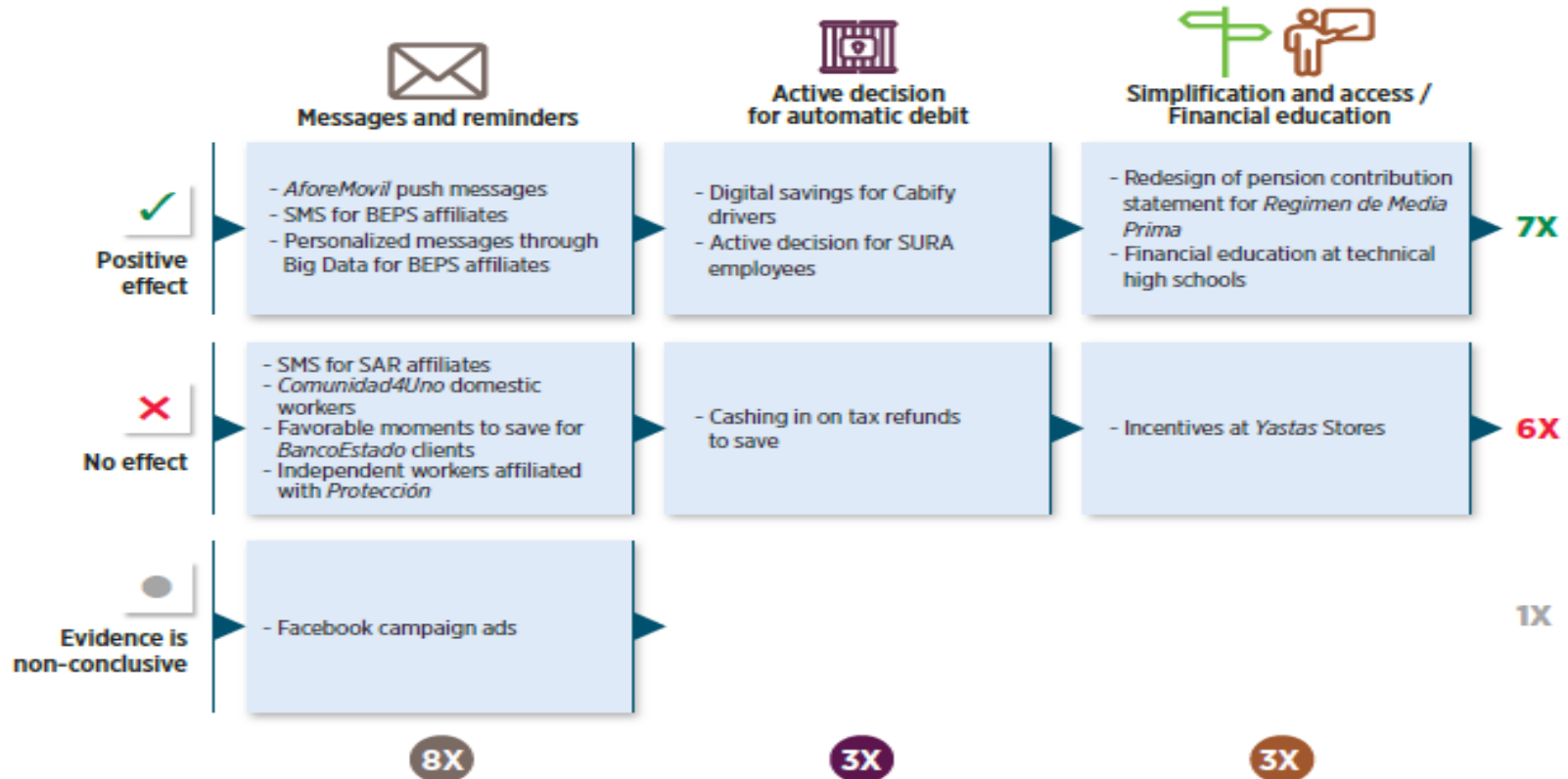
Tackling behavioral biases: International experience

FIGURE 4. OVERVIEW AND EFFECTS OF THE RETIREMENT SAVINGS LABORATORY'S INITIATIVES



Source: IADB. (2021) , Saving without barriers: lessons from the Retirement Savings Laboratory's pilot projects

Effects of retirement savings: Laboratory initiatives



PERU: proposals to improve voluntary contribution

Mechanisms to foster voluntary contribution

Innovative contribution mechanisms (ICM) - consumption

- **Default Enrollment** : by paying for telephone or fuel (gas); with option to leave.
- **Voluntary contribution**: paying for basic services.
- **Direct contribution**: gas station, pharmacies, supermarkets, stores and other customer service channels.
- **Contribution** charged to bank or virtual accounts/electronic wallets

Adaptation to the income pattern of self-employed/informal

- Adaptation to the self-employed, informal workers and small business conditions
- Allowing different amounts of contributions according to their income pattern and using ICM.
- Voluntary contributions are considered to access to the minimum pension guarantee.

Peruvian authority has implemented a regulatory *Sandbox*



Innovative models (2022)

Business models that involve carrying out activities in a different way from the traditional and that require pilot testing

Flexibility Regime

There is a regulatory
framework

Extraordinary Regime

There is not a
regulatory framework



Objective

- Greater security in innovation and learning processes.

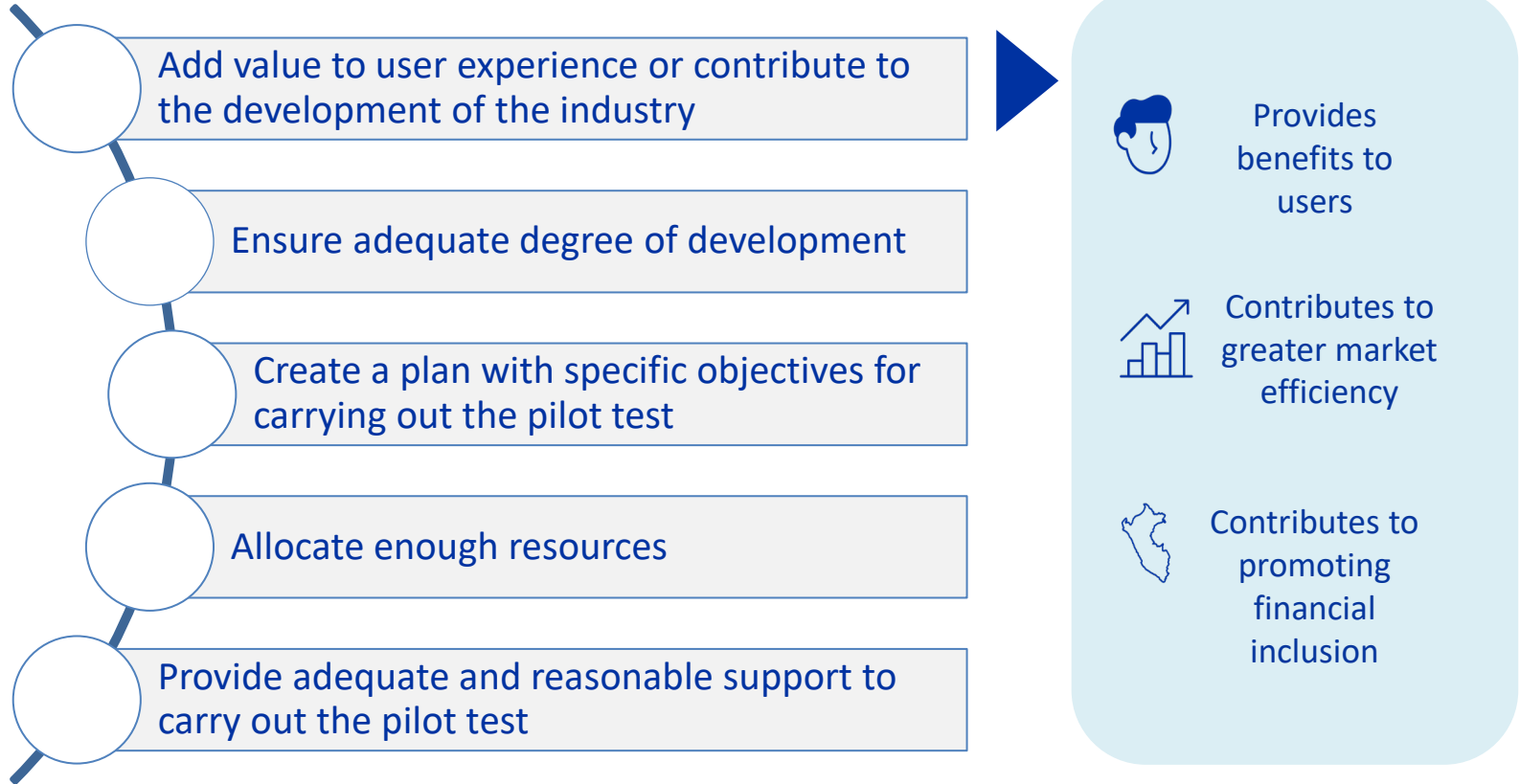


Challenges for SBS

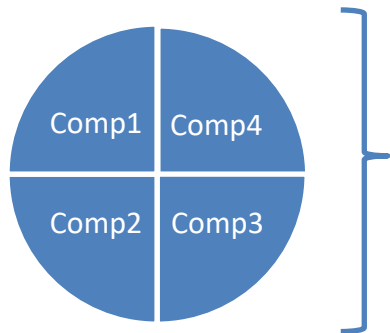
- Timely attention.
- Consistent SBS response on issues with little or no precedent.

PERU - Companies must comply with the eligibility criteria

Eligibility criteria



Sandbox - Opportunity for group applications and coordination with other projects



Two or more
companies

**Collaboration to
innovate**



Same new model



Unique authorization
request

**The application must
indicate obligations of
each company in the
pilot test and its
responsibilities for the
participants**

Possibility to coordinate with other local or
international *Sandboxes*

Main takeaways



Self-employed and informal workers require continuous study and profiling.



A regulatory *Sandbox* has been published and executed to promote innovation in voluntary contributions.



Reasons for not saving:



Objective criteria: lack of resources/job

Behavioral biases: procrastination, optimism, risk aversion, etc.