



MINISTÉRIO DA PREVIDÊNCIA E ASSISTÊNCIA SOCIAL  
SECRETARIA DE PREVIDÊNCIA COMPLEMENTAR

# **Second OECD Conference on Private Pensions in Brazil**

**Ministry of Social Security and Assistance  
of Brazil**

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**Secretariat of Complementary Pension**

**(Room Document N°23, Session 4)**

**Sao Paulo**

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# **Second OECD Conference on Private Pensions in Brazil**

## **Session 4: Pension Plan Governance**

### **Pension fund governance of occupational pension schemes in Brazil**



# Agenda

- **Introduction**
- **Pension Fund Governance**
- **Closed Pension Funds in Brazil**
- **New Regulation and Governance Principles**
- **Conclusions**



# Introduction

## The development of the Pension Fund Industry in Brazil

- **Complementary Social Security Schemes (1977)**
  - Law No. 6435/1977
  - Introduced Complementary Pension System
  - Concentration in Public Pension Funds (State Owned Sponsors) and Defined Benefit Plans (DB plans)
  
- **Pension Funds Reform (started in 1998)**
  - Constitutional Amendment No. 20/1998
  - Complementary Laws No. 108/2001 and No. 109/2001
  - Proposed Complementary Law No. 09 (in Congress)
  - Strengthen the Complementary Pension System
  - Strengthen domestic savings and spur investments



# Pension Fund Governance

## Principles of good Governance

- Responsibility ✓
- Accountability ✓
- Suitability ✓
- Control ✓
- Disclosure ✓  
(Transparency)

### Pension Reform in Brazil

The new regulation has been introducing the basic principles of good Governance adopted across OECD countries.



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# Closed Pension Funds in Brazil

## Secretariat of Complementary Pensions



**Our mission:**

**“To protect the  
participants’ rights  
and strengthen the  
Social Security  
System”**



# **Closed Pension Funds in Brazil**

## **Pension Funds under supervision of Secretariat of Complementary Pensions**

### **- Characteristics of the Pension Funds**

- **Closed / Occupational**
- **Voluntary**
- **Types of plans: DB, CD and Hybrid plans**
- **Foundation or Civil Partnership (non-profit organization)**
- **Provide retirement as the main purpose**



# Closed Pension Funds in Brazil

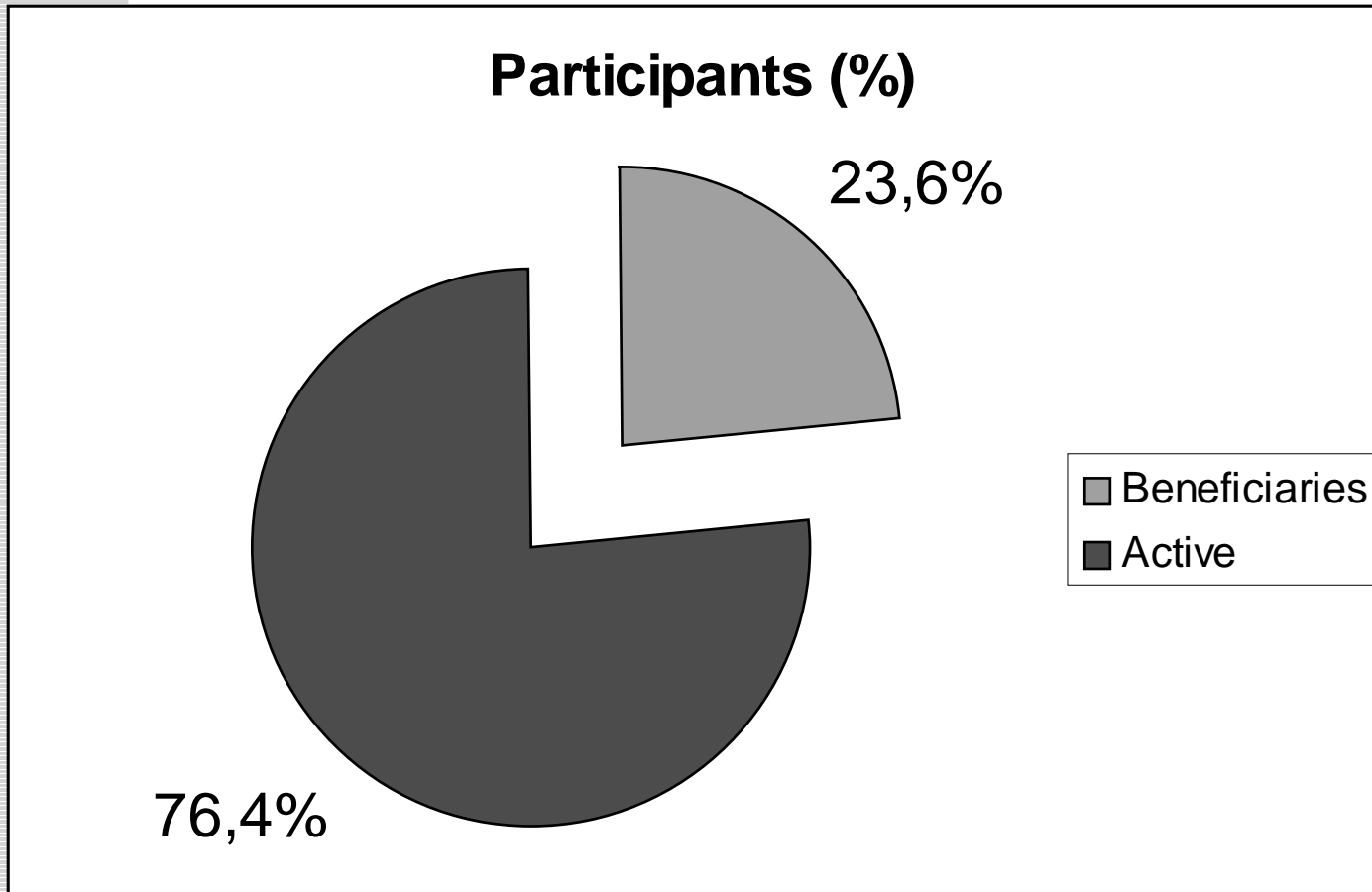
## Industry Overview

- No. of Funds: ..... 359 funds
- No. of Plan Sponsors: ..... 2.113 companies
- No. de Participants: ..... 2.267 mm
  - Active: 1.732 mm
  - Beneficiaries: 535 mm
- Total of investments: ..... R\$ 152 bi
  - Fixed income: R\$ 91 bi (60% Tot)
  - Equities: R\$ 44 bi (29% Tot)
  - Real State: R\$ 10 bi ( 7% Tot)
  - Others: R\$ 7 bi ( 4% Tot)





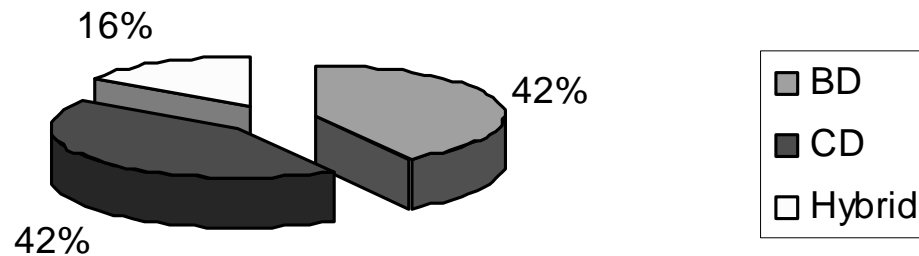
# Closed Pension Funds in Brazil



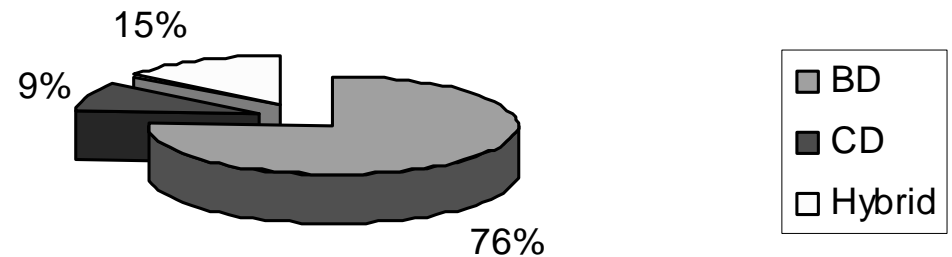


# Closed Pension Funds in Brazil

BD, CD, Hybrid: % of Plans



BD, CD, Hybrid: % of Total Assets





# **New Regulation: P.C. Law 09**

## **Proposed Complementary Law No. 09 (under discussion in the Congress)**

- **Pension Plans for public civil servants (Fed., State and Municip.)**
  - **Fundamental for the Social Security System equilibrium**
  - **High potential to grow: 5 million new active participants**
  
- **Defined Contribution Plans**
  - **Sponsor's contribution limited to the participant's contribution**
  - **External portfolio management**
  
- **Flexibility**
  - **Option for participants to contract insurance**
  - **Portability to the private sector after start receiving benefits**



# **New Regulation: Comp. Law 108**

## **Complementary Law No. 108/2001**

- Regulates the activity of public institutions as sponsors of pension plans**
- New organizational structure (Governance structure)**
- Sponsor's contribution limited to the participant's contribution**
- Minimum grace period of 60 monthly contributions to access continuing benefits**
- Prohibits the use of public resources (National Treasury) to cover pension funds' actuarial deficits: preserves fiscal responsibility**

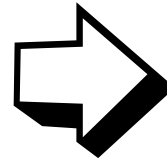


# New Regulation: Comp. Law 108

## Comp. Law No. 108/2001: Governance principles

### GOVERNANCE STRUCTURE

- Deliberative Council
- Fiscal Council
- Executive Board



- Accountability
- Responsibility
- Suitability  
(Professionalism)

**Participants have chairs  
in the councils**



# New Regulation: Comp. Law 109

## Complementary Law No. 109/2001

- Provides conditions for the development of the complementary pension funds: increases coverage and credibility of the system.
- Focus on Benefit Plan: Pension Funds X Benefit Plans
  - New types of plans: Defined Contribution and Hybrid plans
  - Multi-plan entity and Multi-sponsored plan
- New category of plan sponsors (*Instituidor*): professional, class, or industrial associations
- Flexibility for participants: Portability and Vesting
- Transparency: full disclosure of information to the participants



# New Regulation: Strategic Plan

## Management of a Pension Fund

### Asset-Liability Mgmt

#### Assets

- Pricing
- Risk Control
- Invest. Policy

#### Liabilities

- Demographics
- Min. Actuarial Premises

- Auditing
- Professionalism

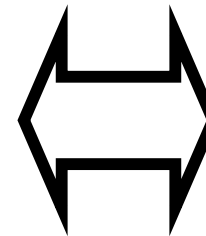
### Transparency

### Governance

Participants

Plan Sponsors

Government





# New Regulation: Res. CMN 2829

## Resolution CMN No. 2829/2001

- Asset segregation by Benefit Plan
  - Pension Funds X Plans of Benefits
- Introduction of the concept of *Asset-Liability Management (ALM)*
  - Economic and financial equilibrium: Asset X Liability (actuarial)
- Classification of assets based on the quality of credit (of issuers)
  - Fixed Income: *rating*
  - Equities: level of Corporate Governance
- Use of instruments of risk management
  - *Value-at-Risk (VaR)*: to control de market risks of assets “Mark to Market” (*MtoM*)





# **New Regulation: Res. CMN 2829**

## **Resolution CMN No. 2829/2001**

- Portfolio Manager**
  - **Fiduciary Agent responsible for managing the portfolio of investments**
  
- Custodian**
  - **Safekeeping and control of Fixed Income and Equities assets**
  
- Independent Auditor of Investments**
  - **Annual auditing of procedures applied for managing the portfolio of investments**
  
- Investment Policy**
  - **Annual strategic planning of investments with disclosure to all participants**



## **Conclusions**

**Past: High inflation - Low transparency**



**Real Plan: Inflation under control**

**Pension Funds Reform**



**Governance principles**

**Stronger Social Security System**  
**Sustainable economic growth**



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