COLOMBIA: ASSESSMENT OF THE REGULATORY FRAMEWORK OF PRIVATE PENSIONS

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REVIEW OF COLOMBIA
BY THE WORKING PARTY OF PRIVATE PENSIONS

This review of Colombia by the OECD Working Party on Private Pensions is part of a series of reviews of national policies undertaken for the OECD Insurance and Private Pensions Committee (IPPC). The IPPC was requested to examine Colombia’s position with respect to core principles related to pension systems.

The present report was finalised on the basis of information available in April 2016. It is released on the responsibility of the Secretary General of the OECD.
INTRODUCTION

A. The policy framework

1. On 19 September 2013, the Council adopted a Roadmap for the Accession of Colombia to the OECD Convention (hereinafter “the Roadmap”), setting out the terms, conditions and process for accession. The Roadmap provides that in order to allow the Council to take an informed decision, Colombia will undergo in-depth reviews by the relevant OECD technical committees, including the Insurance and Private Pensions Committee (IPPC), which will then provide the Council with a formal opinion.

2. Accordingly, this report provides an assessment of the private pension system in Colombia against relevant OECD legal instruments and against the core principles for ensuring sound prudential regulation of private pension systems and protecting the rights of members and beneficiaries, set out in the Appendix to the Roadmap.

B. Position of Colombia in relation to the OECD Legal Instruments

3. This review considers Colombia’s position in relation to the two legal instruments relevant to private pensions, the OECD Recommendation on Core Principles of Occupational Pension Regulation and the OECD Recommendation on Good Practices for Financial Education Relating to Private Pensions. Colombia has accepted both these instruments in its Initial Memorandum, without timeframes for implementation.

C. Basis for the review

4. The first section of this document gives a short description of the Colombian pension system. The second section contains a preliminary assessment of the implementation of the OECD Recommendation on Core Principles of Occupational Pension Regulation and the OECD Recommendation on Good Practices for Financial Education relating to Private Pensions in Colombia. It describes how the regulatory and supervisory framework for private pensions in Colombia generally converges with or diverges from the OECD Recommendations. A Statistical Annex provides a more detailed description of the private pension system and market in Colombia.

I. OVERVIEW OF THE COLOMBIAN PRIVATE PENSION SYSTEM

A. General description of the Colombian pension system

5. The Colombian pension system underwent major reform in 1993. The aim was to provide a consolidated and more efficient public pension system with a funded component. Prior to 1993, the pension system in Colombia was fragmented and inefficient, consisting of over 1,000 different pension administrators that provided defined-benefit, pay-as-you-go schemes covering public and formal sector workers. Each scheme had different rules for contributions and accruals for pension entitlements and benefits. This made for unequal treatment of savers and administrative inefficiencies in pension provision. Twenty-year transitional rules were set up to phase out the occupation-specific schemes while protecting the accrued rights of existing members. These schemes are now closed to new members. Under the transitional rules, insured men aged 40 or older and women aged 35 or older with at least 15 years of contributions in 1994 were able to retain the benefit conditions of their old schemes. The abolished occupation specific schemes were replaced by the introduction of the Colombian General Pension System.
which aims to cover formal sector workers. Only a few specific public sector, defined-benefit professional schemes have been retained, in particular for the military, police and teachers.

6. The GPS is a mandatory system with two competing schemes, rather than complementary as the OECD recommends: (1) the public pension scheme and (2) the private pension scheme. Insured individuals must contribute to either the public or the private pension scheme and may switch membership every five years up to the last ten years before retirement. When switching from the private scheme to the public, the value of accumulations credited to a member’s private pension account are calculated in terms of qualifying weeks in the public defined benefit system. When the switch is from the public to the private scheme, a pension bond is issued which can be credited to an individual account in the private pension system. The calculation of the pension bond is based on the assumption of the expected salary at retirement and the number of contribution weeks accrued. Entitlement to this bond is limited to individuals who have contributed for at least 150 weeks.

7. The public pension scheme is a defined-benefit scheme financed on a pay-as-you-go basis. It includes a Solidarity Pension Fund (SPF) that funds the Colombia Mayor programme, which provides a subsidy for the elderly in extreme poverty. It also funds a contribution subsidy for lower-income independent workers who may not fulfil all the eligibility requirements for participation in the GPS. The state stands as a guarantor for any financial shortfall in both of these schemes.

8. The private pension scheme is a funded defined-contribution scheme. The private pension scheme is protected by a state guarantee that provides a top-up for individual account balances that are insufficient to finance the minimum pension set by law, if the qualifying conditions are met. It also includes a guaranteed return that is set by the National Government and calculated by the Financial Superintendence. If administrators cannot achieve the guaranteed minimum rate of return, they must fund the shortfall from a return stability reserve and, if necessary, from their own capital.

9. The GPS is complemented by two types of voluntary pension scheme. The Beneficios Económicos Periódicos (BEPS) was introduced in 2014. The BEPS allows some of the lowest income groups to voluntarily contribute to GPS, as long as they are affiliated to the either the private or public component of the GPS. At retirement individuals are eligible to receive a 20% matching of contributions from the government.

10. All individuals can contribute to voluntary private pension schemes. Contributions to these voluntary schemes are tax exempt up to a ceiling as long as contributions are retained in the system for a minimum of five years, unless withdrawal is due to retirement, disability or demise, or if the withdrawal is made to purchase a home.

B. Contributions and benefit eligibility

11. One of the aims of the Colombian pension reform was to introduce a stronger link between contributions and benefits in the mandatory pension system. For an average earner, employee contributions amount to 4% of gross earnings and employer contributions to 12% up to a ceiling. These form the total contributions to the GPS and include contributions used to finance administrative costs and disability and survivors’ pensions. Workers with higher incomes are required to pay additional contributions of up to 2% of earnings to the Solidarity Pension Fund. Within the private pension scheme, administrators charge management fees and premiums for the management of the old age pensions, disability and survivors’ pensions. The premiums and administration costs may not, by law, exceed 3%. The distribution between the two is contingent on negotiations between the different administrators and insurance companies. Table 1 below sets out the distribution of these contributions in the public and private pension schemes in 2014.
Table 1. Average distribution of pension contributions within the public and private schemes of the General Pension System for an average earner (% of gross earnings), 2014

<table>
<thead>
<tr>
<th>Total mandatory contributions:</th>
<th>Public Scheme</th>
<th>Private Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old age pension</td>
<td>13%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Disability and survivor insurance</td>
<td>1.81%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Administrative costs</td>
<td>1.09%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Minimum Pension Guarantee Fund</td>
<td>-</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

12. Self-employed or independent workers who earn at least the minimum wage are required to participate in the GPS, and should contribute 16% of 40% of their total income. Certain independent workers classified as belonging to low income and vulnerable groups can receive a state subsidy on their contributions.

13. The eligibility criteria to receive a pension in the public scheme are based on age and contribution periods. Men who have reached the age of 62 and women who have reached the age of 57, and who have contributed for at least 1 300 weeks (25 years), are eligible to receive a benefit from the public scheme of the GPS.

14. The main eligibility criteria to receive a pension in the private scheme are based on the capital accumulated by members. Members with enough capital to finance a monthly benefit of more than 110% of the minimum monthly national wage are eligible to retire, regardless of their age. Members who have not accumulated enough capital to finance a monthly benefit of more than 110% of the minimum wage, but who have reached the retirement age of 62 years for men and 57 for women, receive a lump sum payment equal to the balance on their individual account. Members who have not accumulated enough capital to finance the minimum pension can benefit from the minimum pension guarantee once they have reached the retirement age and have contributed to the system for at least 1 150 weeks (22.1 years).

15. Low income households may be eligible for special benefits. The Family Pension Scheme allows spouses with a low level of accumulations in the GPS, who have reached the retirement age and are entitled to a lump-sum payment, to combine their accumulations to receive a single monthly benefit. Individuals participating in the BEPS program can choose to annuitise their contributions as long as they have reached retirement age and can receive monthly benefits that are at least equal to the public minimum income support to the elderly (Colombia Mayor). Their benefits may not exceed 85% of the minimum wage or the state subsidy is foregone.

16. There is little regulation to establish the eligibility criteria in voluntary private pensions. Both the contributory regime and the eligibility for benefits are defined by the contract between the provider and the plan member.

C. Institutional Framework

17. The public, pay-as-you-go scheme in the GPS is managed by a single authority, the Colombian pension administrator (Colpensiones). Other public sector entities, and in particular the Unidad Administrativa Especial de Gestión Pensional y Contribuciones Parafiscales de la Protección Social (UGPP), administer the different schemes for specific types of public sector employees. The UGPP operates as the supervisor of the collection of all the social security contributions for the public schemes. The administrators are regulated by the Ministry of Labour. The Solidarity Pension Fund is administered in a separate account by the Ministry of Social Protection.
18. The private, defined-contribution scheme in the GPS is managed by Pension Fund Administrators (Administradoras de Fondos de Pensiones, AFP) that also collect contributions. Funded assets must be held by a custodian and deposited in a bank or other institution approved by the Financial Superintendence (Superintendencia Financiera de Colombia, SFC). Contributions paid to the Minimum Pension Guarantee Fund accounts are managed by the AFPs separately. Each pension fund must also maintain a return stability reserve to meet the guaranteed minimum rate of return determined by the National Government. Additionally, AFPs must pay contributions to the Financial Institutions Guarantee Fund (Fondo de Garantía de Instituciones Financieras, FOGAFIN) from their own capital to ensure that mandatory contributions are fully reimbursed in the event of the AFP's insolvency or liquidation, although notably no premiums are paid to FOGAFIN today.

19. Trust companies, insurance companies and AFPs may manage voluntary pension funds. The voluntary pension business has to be kept separate from other funds. In the case of AFPs, who own almost 85% of the voluntary pension market, the voluntary pension business has to be separated from the management of the mandatory pension funds.

20. The Ministry of Labour regulates the GPS public and private pension schemes and Colpensiones. The SFC is a technical body affiliated with the Ministry of Finance. It supervises and ensures that the operations of the mandatory private pension schemes and the mandatory severance pay schemes comply with legal requirements. It is an integrated institution that supervises among other things the operations of pension funds, banks, insurance companies, fiduciary societies and brokerage firms.

II. PRELIMINARY ASSESSMENT OF THE IMPLEMENTATION OF THE OECD LEGAL INSTRUMENTS IN THE FIELD OF PRIVATE PENSIONS IN COLOMBIA

A. Scope

21. The scope of this assessment includes the private pension component of the General Pension System (GPS) in Colombia. It also considers voluntary private pension savings offered by Pension Fund Administrators (Administradoras de Fondos de Pensiones, AFP).

B. Assessment against the Recommendation of the Council on Core Principles of Occupational Pension Regulation

Core Principle 1: Conditions for effective regulation and supervision

22. The operations and design of the GPS are adequately regulated through a set of legal provisions. Law 100 of 1993 establishes the objectives and design of the GPS, including the parameters for contributions, accruals and benefits. It also sets out overarching parameters for the financial security, profitability and liquidity of AFPs and the investment restrictions that they must respect. Legislative Act 01 of 2005 states the rules for a minimum pension level that must be at least equal to the minimum wage. Law 222 of 1995 sets out rules related to the prudential role and due diligence requirements of AFPs. Law 1328 of 2009 establishes member rights related to consumer protection and financial education. Decree 2555 of 2010 regulates the governance, consumer protection, investment regime, minimum return rate, solvency and capital requirements of AFPs. The Organic Statute of the Financial System (Decree Law 663 of 1993) sets out the legal framework for the establishment of AFPs, the licencing procedure, criteria for liquidation or merger as well as the governance, duties and powers of the Financial Superintendence (SFC).
23. The SFC sets instructions within the framework of the decrees issued by the national government. The Basic Legal Circular and Finance Circular lay out the rules for asset and liability valuation, accounting, investment policy requirements and profitability and solvency calculations. These instructions also include technical and methodological requirements as well as the assumptions to be used, including interest rates, mortality tables, survivors and technical reserves. Maintaining the independence and integrity of the Financial Superintendent is vital to ensure that the instructions are designed to ensure a fair evaluation of the financial situation of AFPs. (See also Core Principle 7: Supervision.)

24. The Colombian private pensions market is growing but remains relatively small and competition is limited. Colombia recognises the role of AFPs in boosting the development of local capital markets and the development of large infrastructure programmes. Total assets under management represented 18.2% of GDP as of end-2013, but this figure has more than doubled since the introduction of the GPS in 2003. Market concentration increased following two significant mergers in 2014 and there are currently four AFPs operating. The two largest AFPs, which are primarily owned by Colombia’s biggest conglomerates, hold 80% of both total assets and total members. Lack of competition may be the reason for high fees in Colombia’s private pension market: regulation caps total charges for administration plus premiums for survivors’ and disability pensions at 3% of total investment; however average administration costs amounted to 1.5% in 2014, above the level in the public scheme and in most other OECD countries.¹ The Colombian government’s reform agenda includes new legislation to address these issues, but such a bill is unlikely to be presented to Congress in the next legislature.

25. The role of voluntary private pension schemes is small in Colombia and regulation of these plans is seemingly scarce. Voluntary pension funds are regulated by the Organic Statute of the Financial System (Decree Law 663 of 1993) and the Basic Legal Circular of the SFC. They are supervised by the SFC. According to Legislative Act 01 of 2005, pension plans may not be included in collective agreements. Individuals may, however, affiliate to a voluntary pension scheme. AFPs can administer voluntary pension funds but must keep each fund independent from the others. This type of saving benefits from the same tax incentives as do mandatory contributions, except that voluntary contributions must be retained in the system for at least five years to benefit from the tax exemptions. A deeper study of the regulation of these schemes is required to better assess the impact of regulation on participation and plan design.

26. A further challenge to the development of the private pension industry is the competition between the private and public components of the GPS. Less than 30% of members aged 50 and above are affiliated with the private pension scheme, in contrast to almost 90% of those aged below 35 and 65% of those aged between 35 and 50. The number of pensioners from the public pension scheme is growing faster than the number from the private scheme, creating financial risk in the public PAYG system. This is partly because benefits from the public defined benefit scheme are perceived as being higher (see also Core Principle 5: Rights of members and beneficiaries and adequacy of benefits).

27. There is a need to refine data collection and monitoring to better understand the impact of regulation on the efficiency of pension provision and the choices of members and future retirees. The different benefit regimes within the GPS should also be analysed further. For example, contributions to finance old age pensions amount to 13% in the public pension scheme but to only 11.5% in the private scheme, while the contribution period to become eligible for the minimum guaranteed pension is longer in the public scheme (1 300 weeks) than in the private scheme (1 150 weeks).

Recommended initiatives

• Assess the progress being made in introducing regulatory approaches to improve competitiveness and reduce concentration in the private pension fund market, with the aim of reducing fees and costs, and any existing barriers to new market entrants.

• The different valuations of accumulations used in the public and private schemes create a bias towards staying in the public scheme for existing members. The Secretariat considers that a full assessment of the method for evaluating accumulations in the private pension scheme and entitlements in the public PAYG scheme in the event of a switch between the two schemes or between pension funds would contribute to equal treatment. Furthermore, it would be advantageous to make the information on these calculations available to members (See also Core Principle 5: Rights of members and beneficiaries and adequacy of benefits).
28. AFPs are licensed by the SFC. As the licensing authority, the SFC has the powers to grant or reject a licence. It can take punitive action and can issue fines, or revoke or suspend a licence in situations that are clearly stipulated. In cases of dire financial strain, including failure to comply with profitability and minimum capital requirements, inability to fulfil obligations or refusal to an accounting inspection, the SFC may initiate takeover and settlement procedures. Decisions of the SFC are subject to legal recourse in the administrative courts.

29. The licensing criteria, standards and requirements are stipulated in law and the details are provided in instructions issued by the SFC, including checklists to facilitate the licencing process for applicants. The quality of the guidance or guidance material provided to pension funds in procedural matters needs to be further established.

30. While the legal form of AFPs is regulated, there are some gaps in identifying their ownership structure. AFPs must incorporate as a legal entity as either a stock company (Sociedad Anónima) or solidarity institution, as regulated by Law 45 of 1990 for financial service corporations. Employer-sponsored plans are not allowed, but AFPs must publicly issue a proportion of shares with the aim of promoting ownership by members and the social solidarity sector including trade unions, during their first five years of operation. As part of the licensing procedure, the SFC in its capacity of licensing authority must request the curriculum vitae of the shareholders as well as the information necessary to establish their liabilities, suitability and economic situation. Shares can also be held by holding companies which can render the ownership structure more obscure and make it difficult to establish whether conflicts of interest exist.

31. The licensing process in Colombia could put more emphasis on the operational and financial soundness of the applicant. The licensing procedure focuses on the organisational form of the governing body, capital requirements and the ownership structure of the applicant AFPs. The main governing document is the investment policy. This sets out an investment strategy that is compliant with the legal investment rules and restrictions for each of the risk portfolios offered by the AFP, as well as policies for risk management and internal control. AFPs assume financial risk in providing the minimum return guarantee and adhering to the minimum solvency ratio (although this is low); however no funding policy, business, risk management or financial plan is required.

32. The criteria in the licensing process and the legal requirements to establish an AFP are the same for every applicant regardless the type, scale and complexity of its activities. Depending on the rigour with which the licensing procedure is implemented, this could deter smaller or new actors from entering the market.

Recommended initiatives

- Assess the rigour and cost of the licensing procedure from the point of view of the industry, especially with regards to the assessment of the financial and administrative readiness of applicant AFPs to undertake and sustain operations, giving some regard to the ongoing consolidation in the market (See Core Principle 1: Conditions for effective regulation and supervision).
33. AFPs assume certain liabilities during the pay-out phase. In the private, defined-contribution pension scheme, AFPs are obliged by Law 100 of 1995 to keep members’ old-age pension contributions in separate, individual accounts. Members of the GPS private pension scheme who do not have sufficient accumulations to finance a monthly benefit of more than 110% of the minimum wage and who do not fulfil the contributory period requirements, but who have reached the retirement age, are entitled to receive a lump sum payment equal to the balance on their individual savings account. Upon fulfilling the legal eligibility criteria for a pension, members are entitled to receive the value of their contributions in the form of an annuity administered by an insurance company or a programmed withdrawal administered by the AFPs.

34. AFPs providing a lifetime programmed withdrawal must ensure that the remaining accumulated capital must always be enough to finance a life annuity at least equal to the minimum monthly wage. As the minimum wage is relatively high in Colombia (OECD Economic Surveys: Colombia 2015), this exacerbates the risks associated with the guarantee. Resolution 3099/15 establishes new and less onerous parameters to be used to estimate programmed withdrawals, although the liability and investment risk remain.

35. AFPs must also guarantee a minimum rate of return. This constitutes a liability explicitly borne by the AFPs, who are required by Law 100 of 1993 to maintain a separate stability reserve equivalent to 1% of their assets from their own resources. The reserve funds are invested alongside the members’ assets, but little focus is put on the need for actuarial assessment of these risks. However, the methodology used to calculate the guaranteed minimum rate of return is based on the actual returns of the AFPs, so any shortfall is likely to be small. Compliance with the minimum return is verified by the SFC on a monthly basis. At the same time, little is known about the risk management or funding of any possible shortfall against the minimum return or the liabilities assumed in the pay-out phase.

36. While there are formal requirements for AFPs to employ the services of an actuary, the role of the actuarial assessment is not clearly regulated and neither fit and proper requirements nor a recognised qualification for actuaries exists. Promisingly, the Colombian Actuarial Association has recently been accepted as a member of the International Actuarial Association and is in the process of preparing qualification rules.

37. Member rights are quite strong in the event of the winding up, merger or acquisition of an AFP. The pension fund is generally protected since it is independent and segregated from the balance sheet of the administrator. In the event of an AFP being wound up, the pension fund is transferred to another pension fund manager. In cases of fraud or pension fund mismanagement leading to the involuntary liquidation of an AFP or the withdrawal of its operating licence, the State has the explicit responsibility to act as the ultimate guarantor of the savings. In case of the insolvency, merger or acquisition of an entity, the law states that pension rights have priority over all other rights and the government is the ultimate safeguard of pension rights.

38. It is fundamental to gain a clearer understanding of how the different guarantee mechanisms provided by the State are funded. FOGAFIN, the State Financial Institutions Guarantee Fund, charges AFPs a fee to insure them against insolvency risk, although this fee is currently set at zero. The pertinence of this insurance is being debated. There is already an explicit responsibility of the State to guarantee retirement savings in AFPs if the fund does not comply with the legal norms. In addition, the minimum return requirement imposed on AFPs is backed by a yield stability reserve established by the National
Government. Furthermore, the Minimum Pension Guarantee Fund ensures a minimum pension level for those who have fulfilled the eligibility criteria.

**Recommended initiatives**

- Assess the role of funding rules, actuarial and risk assessments relating to the financial obligations and risks assumed by the AFP.

- A cost-benefit analysis of the financing of the yield stability reserve and of the FOGAFIN guarantee would be advantageous.

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**Core Principle 4: Asset Management**

39. Investment by AFPs is subject to quantitative and prudential constraints. Law 100 of 1993 states that pension fund administrators should invest according to limits and conditions set by the National Government. Investment regulation establishes the limits on investments in domestic and foreign securities and the qualification requirements for admissible asset classes. It also sets out issuer concentration limits and the investment limits on securities issued by stockholders of the pension fund manager. Investment in parent companies of the AFPs, subsidiaries of the AFPs or subsidiaries of parent companies is prohibited.

40. AFPs are required to offer three funds with differing risk-return characteristics (conservative, moderate and high risk). The main differences in the quantitative investment restrictions for each of the three funds concern their exposure to higher risk asset classes and vehicles, in particular equities and indirect investment through open-ended collective investment schemes and private equity funds. Details on the main quantitative investment restrictions provided in Table A3 in the attached annex, indicate that the restrictions are not excessively strict. A new Decree (the “multi-fund Decree”) is being prepared for public consultation in the first half of 2016. The Decree is intended to help align investment allocations with the age profile of members of the private scheme; it will also establish transition mechanisms to minimise any effects on the Colombian capital markets.

41. Certain regulations, however, curb the diversity of the investment choice offered to members. A minimum return guarantee is determined by the Government for each of the three risk profiles, based on the average returns of all the AFPs and a reference portfolio. This return guarantee can encourage convergence of the investment portfolios across AFPs (herding effect), limiting the investment options actually available to members. This is of greater concern if the AFPs tend to converge towards sub-optimal portfolios. The Colombian authorities report that a Commission of national and international experts has been set up to study the impact of modifying the minimum return guarantee.

42. The quantitative investment regulations set out above are complemented by prudential responsibilities placed on the governing bodies of AFPs. The regulations clearly set out the responsibility of the senior management of the AFP to act in the best interest of their members. The AFP cannot delegate the investment process to an external investment manager. The AFP must issue an investment policy which differentiates between each type of investment portfolio and ensure compliance with the policy. AFPs must also establish an investment committee where the investment decisions are taken in accordance with the policy and the strategy.
43. Several mechanisms are applied to ensure that liquidity, market and operating risks are controlled by the pension providers. Value-at-risk reporting, liquidity indices reports and on-site inspections have been instated by the AFPs and the SFC to control these risks. Furthermore, each pension fund manager must establish an internal risk committee which is in charge of analysing, evaluating and deciding on the management of risks inherent in the activity of the AFP (such as, market, liquidity, counter party, credit, money laundering and operating risks). The committee also proposes the risk management policies, the methodologies for control and monitoring of risks and follow up the process to ensure compliance. It is not clear to what extent these are supervised.

44. The regulations may not be very conducive to long-term maximisation of returns. When an investment limit has been exceeded, the AFP is obliged to act immediately to restore compliance. When investment limits are exceeded for more than 15 days as a result of portfolio valuation or dividend payments, the AFP must present the SFC with an action plan for bringing the affected fund back within the regulatory limits within a period of 45 days. If an investment is deemed inadmissible, for example due to a credit-rating downgrade, the AFP must send an adjustment plan to the SFC. AFPs are also obliged to report monthly on their fulfilment of the minimum return guarantee. Moving towards longer recovery periods and more time between assessments could incentivise AFPs to implement longer-term investment strategies and help to mitigate market volatility which has been quite substantial in the past (see Figure A4 in Annex). It should be noted that the SFC reports that it is the minimum return guarantee, rather than the assessment period, that motivates the AFPs to follow a rather conservative investment strategy.

45. It has been difficult for the industry to match the long term liability associated with annuity products with assets of similar duration. This is impeding the provision of high-quality and cost-efficient annuity products. One of the main risks that insurers face is in determining their future liabilities, as retirement benefits are linked to the ad hoc increases in the minimum wage, a risk that it is difficult for them to hedge. Annuity benefits also have to amount to at least the minimum wage, meaning that providers are hesitant to sell annuities to individuals with savings close to the minimum wage level. The government has issued a number of regulations to address this concern. Under Decree 36 and Resolution 3272 of 2015, the government assumes the risk of increases in the minimum wage above a certain threshold (equal to inflation plus the average productivity increase over the past ten years). Resolution 3099 of September 2015 modified the actuarial formulas used to calculate the capital requirement for an annuity equivalent to the minimum wage, taking into account the risk of slippage by pensions that start out higher than the minimum, market interest rates and judicial risks such as the inclusion of new beneficiaries post-retirement. The government thus assumes much of the financial risk previously borne by the insurance companies, which could affect the sustainability of public finances in the long-term.

46. The methodology for valuing pension fund assets is established by the SFC in the Basic Accounting Circular, which provides the basis for the valuation of securities and less liquid assets. According to Decree 2555 of 2010, financial institutions, including pension fund managers, must establish the value of the pension funds on a daily basis according to market value and no smoothing mechanism is applied.

Recommended initiatives

- Consider the impact of investment regulation on the maximisation of long-term returns and long-term investment as well as the findings of the Commission that has been set up to study the minimum return guarantee.

- Although the government has guaranteed the risks faced by annuity providers, a deeper study of the risk-based regulations and the risk management techniques used by pension funds and annuity...
providers, including asset-liability matching techniques, stress testing and the assumptions used for the Value at Risk calculations would be of interest.

Core Principle 5: Rights of members and beneficiaries and adequacy of benefits

47. Coverage rates are low, with 60% of the working age population covered by the GPS. This reflects both labour market conditions and the influence of regulation. According to national sources, the participation rate for males was 74.7% and 53.3% for females at the beginning of 2015. At the same time, almost half of the population is said to be informally employed and the economic dependency ratio, calculated as the ratio of employed persons to the total population, is 45.8%.

48. Membership in the GPS requires that individuals are formally employed or self-employed. Informality on the labour market is to a large extent due to the high minimum wage. At the same time, the Constitutional Act 01 of 2005 sets out that the minimum pension cannot be lower than the minimum wage. This constitutional link between pensions and minimum wages prevents the pension system from being inclusive and promoting a more direct link between earnings, contributions and benefits. This is exacerbated by the stipulation that individuals who have fulfilled the retirement criteria in terms of age but not contribution period, and who do not have sufficient accumulations to finance an annuity payment that is at least the minimum wage, are only entitled to receive their accumulations as a lump sum. It is, therefore, important to clearly establish the proportion of retirees who are unable to fulfil the annuitisation criteria upon retirement.

49. To increase the coverage of the GPS, the Colombian government has introduced a matching contributions programme, Beneficios Económicos Periódicos (BEPS). The programme extends only to low income workers who suffer periods of informality. Regardless of whether individuals are affiliated to the private or the public pension scheme, contributions to BEPS are diverted to individual accounts managed separately by Colpensiones. Coverage of BEPS is currently low with only a few thousand people affiliated to it. Extending the scope of BEPS in terms of membership criteria and clarifying the uprating of contributions to the scheme may encourage more individuals to contribute more towards their pensions. This is pertinent in view of the absence of any other directed financial incentives to increase private pension savings in Colombia (See also Core Principle 1 on Conditions for Effective Regulations and Supervision).

50. The private pension scheme of the GPS is part of the mandatory social security system and its rules, as well as members’ rights, benefits and responsibilities, are equal for all members. These are defined by Law 100 of 1993. In Colombia, contributing to the GPS is mandatory for all employees until they are entitled to a pension.

51. Members’ rights and accumulations are well protected by regulation. AFPs are required to keep members’ contributions to both voluntary and mandatory private pension schemes in individual accounts. The pension funds, made up of the set of individual pension savings accounts, as well as the interests, returns or any other revenues generated by these autonomous assets are the property of members. They are independent of the assets of the AFP. Benefits and entitlements are protected through the right to take legal action within the court system. Members can also direct complaints to the AFPs, which are obliged to maintain robust customer service schemes regulated by Law 1328 of 2009.

52. Members of the GPS are entitled to move contributions between the public and private schemes. The shift can be made every five years up to ten years before retirement, although a pension bond issued during the shift between the public and private schemes is only issued to those with at least 150 weeks of
contribution. Members of the private pension scheme are further entitled to transfer the value of their individual pension savings account between AFPs once a year.

53. The private pension system does not help to diversify risks in that it competes with rather than complements the public PAYG scheme. The SFC reports that the public scheme offers a regressive subsidy to participants. Given that participation in the GPS increases with income, it is important to consider the incentives present in both the public and private schemes for encouraging participation. As of 2014, 94% of members of the GPS aged 55-59 chose to contribute to the public pension scheme. These kinds of transfer may lower the fiscal pressure on the public PAYG system in the short term, but this may not be the case in the long term as longevity increases in Colombia or if trends in choices amongst younger members change. It would be advantageous for Colombia to consider whether the design of the pension system sufficiently and efficiently provides for adequate benefits for individuals all along the income scale.

54. The replacement ratio for the public scheme of the GPS is defined in Law 797 of 2003. For average earners, OECD and national calculations peg replacement rates at between 60% and 75% of average earnings, as long as the worker contributes for between 20 to 28 years. The replacement rates of the private scheme need to be calculated for comparison with the public scheme, to facilitate the choice between the two schemes. These calculations should take into account how entitlements are valued when switching between schemes. They should also consider that benefits are generally indexed annually at a rate equal to the rate of inflation but may not be lower than the minimum monthly wage, which is determined by the National Government on an ad hoc basis (See also Core Principle 1: Conditions for effective regulation and supervision).

55. Members of the private scheme of the GPS are faced with a number of investment and retirement choices, highlighting the need for suitable default options for those unable to make a choice. They must make an investment choice according to their risk preferences (conservative, moderate or high risk); those unable to make this choice are simply placed in a moderate fund. The fact that over 85% of active members are in a moderate fund indicates that many may not be making active choices although there is no available data monitoring this. Under the recently enacted National Development Plan Law, AFPs may now establish a higher risk fund to serve as the default fund for those members who do not make any selection. This may be a better strategy given the current low average age of members in the private pension scheme. Those that are less than five years from the retirement age are moved into the conservative fund unless another active investment choice is made. Members must also actively choose their pension fund administrator.

56. Members need fair and comparable information so that they can optimise their investment and retirement choices. More clarity is needed on the costs and valuations of entitlements and accruals when transfers are made between the private and public pension schemes and between AFPs. Decree 2071 of October 2015 regulates the information that AFPs must provide to members who wish to transfer between the private and public schemes. This Decree will be regulated by a forthcoming Resolution which is expected to be enacted by the end of May. The public consultation period on the draft Resolution, which addresses the availability of comparable information on costs, returns and projected benefits, ended in February. This type of information is critical for facilitating investment choice and developments on the Resolution should be followed up. With regard to the choice of AFP, individuals are entitled to receive information regarding their accumulations, but the responsibility for all the information provision lies with the AFPs. Insufficient information is reportedly disclosed to members of the public scheme. It will be key to build up data on members’ accumulations and contribution histories. Law 1328 of 2009 introduced an obligation on financial institutions, including pension and severance funds, to provide financial education.

57. Members are also required to select the form of pay-out they receive at retirement. They should therefore be provided with comparable information about annuity and pay-out products, including cost data
and the type of protection against longevity and inflation risks that the different products provide. As of end-2013, only 2% of pensioners were affiliated to the private scheme of the GPS. Only 15% of these had chosen a life annuity as compared to 83% choosing a programmed withdrawal, which is also the default option for those fulfilling the eligibility criteria. It is currently unknown how many individuals receive a lump-sum payment because they do not meet the financial criteria for a programmed withdrawal. This is an issue that needs to be resolved to ensure that pension savings are able to finance the entire period in retirement.

**Recommended initiatives**

- Strengthening policies to increase coverage of private pension arrangements in order to ensure adequate income in retirement. This should include an assessment of the regulatory framework for voluntary private pension schemes and a deeper analysis of expected replacement rates from the private pension system as compared to those of the public system given different investment choices.

- An assessment of the design features of the public pension scheme as compared to the private, in particular the subsidy offered and the valuation of the pension bond issued in the public scheme during a transfer to the private scheme.

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**Core Principle 6: Governance**

58. Regulation, through the Statute of the Financial System Decree 663 of 1993, adequately sets out the main requirements for the governing body of pension funds. It clearly dictates the legal and organisational form of the governing body, and sets out appropriate suitability and recruiting criteria. Provisions to avoid conflicts of interest are also legislated. AFPs are obliged to establish a clear and correct attribution of responsibilities, functions and provide adequate training of staff.

59. Regulation also adequately protects the interests of members and shareholders in the governing body. Shareholders are entitled to representation on the governing body in proportion to their participation in the company’s equity. Shareholders must elect at least one employee representative and one employer representative, whose nominations should be ensured by the legal representative of the fund, or, failing this, by the SFC.

60. In order to ensure sufficient independent controls, the governing body is required to set up an audit committee, a risk committee and an investment committee. The risk committee and the investment committee have an advisory role; their main tasks are set out in Core principle 4: Asset Management. The audit committee is the governing body responsible for assessing the internal control systems of the company and must have a majority of independent members. The audit committee also nominates the Statutory Auditor for election by the assembly of shareholders, although the candidates may be proposed by the shareholders. The Statutory Auditor monitors the veracity of the company’s financial information, assesses the strength of the internal audit and verifies compliance with the decisions of the governing bodies of the company. Each AFP is obliged to have an Internal Auditor who is in charge of evaluating the risk management, governance and control functions of the company. The governing body receives regular reports to assist in its decision making. In accordance with the functions of auditors established in the Commercial Code, the AFPs’ auditors must also collaborate with government entities engaged in their inspection and supervision, including alerting the SFC in case of non-compliance. **Recommended initiatives**
• Monitoring progress in implementing international auditing standards as far as they concern the independence of auditors.

**Core Principle 7: Supervision**

61. The SFC is the supervisor of the AFPs as well as of banks and other financial intermediaries, insurance companies and intermediaries, securities intermediaries and issuers. As one of the available payment forms for pension plan benefits is an annuity through life insurance, the SFC has holistic responsibility for supervising both the accumulation and pay-out phases of the private pension scheme.

62. The SFC is financially independent. Ninety-eight per cent of its financial resources come from contributions from the supervised institutions; the remainder comes from returns on investments and fees for administrative services. The SFC’s budget must, however, be considered in the annual fiscal budget and approved by the Congress, Colombia's bicameral national legislature. This ensures some measure of financial accountability and oversight of the supervisor.

63. The institutional independence of the supervisor has recently been strengthened. Decree 2555 of 2010, established the SFC as a technical body affiliated with the Ministry of Finance with legal personality, financial and administrative autonomy and its own economic resources. Decree 1817 of October 2015 sets out criteria for the appointment and dismissal of the Superintendent of Finance, who is appointed for a fixed term coincident with the four-year Presidential term and who can be removed by the President only for cause.

64. The SFC has decision-making responsibilities, but it must consult the Advisory Council (comprised of experts in relevant areas) in certain situations. These include authorisation for the establishment, merger, acquisition, or conversion of an entity subject to the SFC’s oversight. The Superintendent of Finance has the power to convene the Advisory Council, but its members can be freely appointed and removed by the President of the Republic.

65. Legislation ensures the legitimacy and integrity of the staff of the SFC, but their legal professional protection is weak. The staff of the SFC is subject to fit and proper selection criteria set out by legislation and to an appropriate code of conduct, ethics and governance. The assessment report of the Working Party of Governmental Experts on Insurance notes that the SFC and its staff have no legal protection against legal actions and administrative proceedings in connection with their activities. The 2016 Budget Law, adopted by Congress in October 2015, explicitly authorises Superintendencies to bear the costs of legal processes brought against Superintendents in the course of their duties. The SFC thus acquires a directors’ and officers’ liability insurance policy to provide protection in the event that a member of staff is found liable for unlawful behaviour in connection with their professional activities and to cover expenses incurred in any judicial or administrative proceedings. However, neither the SFC nor its staff are fully protected against disciplinary and legal actions from control agencies including the Attorney General (Procuraduría General de la Nación) and the General Comptroller’s Office (Contraloría General de la República), or from lawsuits brought by private parties. Furthermore, the SFC as a legal entity does not have legal protection against its supervisory actions.

66. The strategic objectives of the SFC call for its supervisory activities to be comprehensive and risk based. They set out the need for regular monitoring and control of all risks, including operational and
market risks. On and off-site monitoring and a rigorous reporting system give it insight into the activities of AFPs (see also Core Principle 4: Asset Management).

67. At the same time, the main focus of controls seems to be on compliance with investment regulations. It is not fully evident whether more subjective risks are controlled, such as those relating to governance and conflicts of interest. There is no specific regulatory oversight for the actuarial function in pension funds, although the supervision methodology does require the SFC to conduct an evaluation of the appropriateness of the actuarial function in insurance companies.

68. The SFC also assumes duties related to the coordination of financial education initiatives. The AFPs are increasingly responsible for financial education but it is not clear how the initiatives in this area are supervised (See also OECD Recommendation on Good Practices for Financial Education relating to Private Pensions, below). In addition, the SFC handles consumer complaints and thus shares the responsibility of upholding strong consumer protection with the AFPs and other judicial bodies.

Recommended initiatives

- Any legal developments regarding lawsuits against the SFC or its staff should be closely observed.
- The implementation and practice of the supervisory approach should be assessed, to establish if all risks are efficiently monitored, including subjective risks.

C. OECD Recommendation on Good Practices for Financial Education relating to Private Pensions

69. The Colombian regulatory framework treats financial education as a matter of consumer protection and places a large part of the responsibility for providing unbiased information and educating consumers onto private sector financial institutions. Law 1328 of 2009 obliges financial institutions, including pension and severance funds, to engage in financial education relevant to the regime they offer. Decree 2555 of 2010 provides more specific direction on the type of information and advice offered to consumers of financial products in order to facilitate informed decisions by them. It is, however, unclear how the supervisor controls the financial education responsibilities and activities of private pension funds.

70. The SFC is supporting the National Government in the implementation of a National Strategy of Financial Education. The SFC is engaging directly in the development of education programmes for financial consumers that focus on ensuring that consumers can make efficient choices and understand their inherent risks, rather than just the provision of information. With the support of the Inter-American Development Bank, it is studying the implementation of financial education programmes in financial institutions with the aim of establishing a framework to facilitate compliance in this area. Such an initiative would advantageously also consider any agency problems or conflicts of interest in the information and education programmes provided.

71. It is not clear that any single government institution has responsibility for government-run financial education programmes focused on retirement savings. In a pension system where individuals are obliged to make investment and retirement decisions regarding their pension savings, this poses a challenge. Individuals may not be receiving appropriate education to facilitate their choice between the defined-benefit public scheme and the defined-contribution private scheme, or between pay-out products that offer different degrees of protection against longevity and other risks. It is not clear what programmes are directed towards individuals who may be informally employed or not affiliated to the GPS. As these
are often low-income or rural workers and those with the weakest link to the formal labour market, they may not be fully aware of the benefits and risks of affiliating themselves with the BEPS program or other voluntary forms of private pension savings.

72. The Colombian government recognises that financial education programmes in general are a challenge in Colombia. An inter-sectoral Commission on Economic and Financial Education has been created to co-ordinate efforts to improve provision, although more emphasis is put on non-retirement investment products. Several government authorities and bodies such as the SFC and FOGAFIN participate in this Commission. Greater co-ordination can universalise and strengthen the impact of financial education programmes and help to avoid duplication of efforts.

73. Almost 60% of members in private pension schemes are below the age of 35. At the same time, financial literacy and inclusion in Colombia is quite low. Results from the OECD Programme for International Student Assessment (PISA) showed that Colombia ranks the lowest in financial literacy performance amongst all participating countries. More than half of the students (57%) perform below the baseline level. Financial education is now being introduced in Colombian schools through the pilot project Finanzas para el Cambio (Finances for Change), which started in 2006.

**Recommended initiatives**

- The supervision of activities of AFPs in providing financial education, to ensure that these are being carried out fairly, without conflicts of interest and in accordance with the law.

- Maintaining the ongoing efforts of the Government to provide financial education relating specifically to private pensions across different cohorts and income groups.

**CONCLUDING REMARKS**

74. The assessment of the Colombian private pension system set out in the section above shows that the regulation and supervision of private pensions are consistent with OECD legal instruments in this area. Regulation is comprehensive and generally well designed. The country also has all the main elements of a sound supervisory framework.

75. Nonetheless, the WPPP considers that Colombia could improve its regulatory framework to promote the further development the private pension scheme within the GPS, by implementing policies to increase coverage of private pension arrangements; by increasing competitiveness in the private pension market; by strengthening members’ ability to optimise their investment and retirement choices; and by monitoring the impact of government guarantees towards the insurance companies.

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2. Source: OECD, PISA 2012 Database
THE PRIVATE PENSION SCHEME OF THE GENERAL PENSION SYSTEM (GPS)

A. Membership

Sixty percent of the working age population is covered by the GPS. Just fewer than 65% of the individuals covered by the GPS are affiliated with the private pension scheme rather than the public pension scheme. The proportion of individuals covered by the GPS affiliated to the private pension scheme has followed a steady upward trend since 2007. Affiliation with the private pension scheme varies significantly by age, with the fastest growth coming in the proportion of members aged below 35 years. In 2013, 89% of affiliates under the age of 35 belonged to the private pension scheme (an increase of 13% from 2007) whereas only 23% of individuals aged 50 and over were part of this scheme (an increase of 7% from 2007).

At the end of 2013, 11.7 million individuals were affiliated with the defined contribution private pension scheme (excluding pensioners). Of these 59% were male and 41% female. There is clearly an age bias in the private pension scheme, where over 90% of members are under the age of 50.

Table A1. Age distribution in the membership within the GPS private pension scheme, December 2013

<table>
<thead>
<tr>
<th>Age group</th>
<th>Percent of total membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;35</td>
<td>57.3%</td>
</tr>
<tr>
<td>35-49</td>
<td>34.2%</td>
</tr>
<tr>
<td>50 and above</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

Source: SFC
B. Labour market

Over the last decade, participation rates in the labour market have been increasing and unemployment rates decreasing. The figures demonstrate significant seasonality, with the period between December and February having consistently higher unemployment. In the first quarter of 2015, the participation rate, showing the gainfully active population as a percentage of the working age population, was 74.7% for men compared to 53.3% for women. The economic dependency ratio (ratio of employed persons to the total population) is 45.8%.

Figure A2. Evolution of participation rate (TGP), employment rate (TO) and unemployment rate (TD)

The overall rate of informal employment in Colombia has been decreasing since 2008. Close to half of the employed population is considered as informally employed. In its definition of informal employment, DANE includes self-employed individuals except those in professional or technical areas, unpaid family workers, domestic workers and employees in companies having fewer than 10 workers.

Figure A3. Evolution of the rate of informal employment, % of employed population, by type of district (áreas)
C. Market concentration

There are only four players in the private pensions market. The two market leaders, Porvenir and Proteccion, claim an 80% market share in terms of both total assets and total members. This high level of market concentration has come about in part from two mergers: in 2012, Proteccion acquired the pension fund managed by ING; in 2013 Porvenir merged with Horizonte.

Table A2. Market share of Pension Fund Administrators in terms of percent of total assets and total members, 2013

<table>
<thead>
<tr>
<th>Name of the fund</th>
<th>Percent of total assets</th>
<th>Percent of total members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Porvenir</td>
<td>44.0%</td>
<td>49.6%</td>
</tr>
<tr>
<td>Proteccion</td>
<td>36.5%</td>
<td>29.9%</td>
</tr>
<tr>
<td>Colfondos</td>
<td>14.1%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Skandia</td>
<td>5.4%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

Source: SFC

D. Investment restrictions

Table A3. Main investment restrictions in the GPS private pension scheme

<table>
<thead>
<tr>
<th>Type of restriction</th>
<th>Conservative/Programmed Withdrawal Fund</th>
<th>Moderate Fund</th>
<th>High Risk Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration limit</td>
<td>Single Issuer: &lt;10% per fund; &lt;30% total assets of all funds</td>
<td>Single Issuer: &lt;10% per fund; &lt;30% total assets of all funds</td>
<td>Single Issuer: &lt;10% per fund; &lt;30% total assets of all funds</td>
</tr>
<tr>
<td></td>
<td>Single fund: &lt;30%</td>
<td>Single fund: &lt;30% Except: private equity fund: &lt;40%</td>
<td>Single fund: &lt;30% Except: private equity fund: &lt;40%</td>
</tr>
<tr>
<td>Direct investment</td>
<td>Total Equity: 0-20% of which &lt;15% national</td>
<td>Total Equity: 20-45% of which &lt;35% national</td>
<td>Total Equity: 45-70% of which &lt;45% national</td>
</tr>
<tr>
<td></td>
<td>Real Estate: Not permitted</td>
<td>Real Estate: Not permitted</td>
<td>Real Estate: Not permitted</td>
</tr>
<tr>
<td></td>
<td>National Public Debt: 50%; of which public debt issued by territorial entities &lt;20%</td>
<td>National Public Debt: 50%; of which public debt issued by territorial entities &lt;20%</td>
<td>National Public Debt: 50%; of which public debt issued by territorial entities &lt;20%</td>
</tr>
<tr>
<td></td>
<td>Securities issued by the Central Bank: &lt;100%</td>
<td>Securities issued by the Central Bank: &lt;100%</td>
<td>Securities issued by the Central Bank: &lt;100%</td>
</tr>
<tr>
<td></td>
<td>Securities issued by entities supervised by the Financial Superintendence of Colombia: &lt;30%</td>
<td>Securities issued by entities supervised by the Financial Superintendence of Colombia: &lt;30%</td>
<td>Securities issued by entities supervised by the Financial Superintendence of Colombia: &lt;30%</td>
</tr>
<tr>
<td></td>
<td>Securities issued by entities not supervised by the Financial Superintendence of</td>
<td>Securities issued by entities not supervised by the Financial Superintendence of</td>
<td>Securities issued by entities not supervised by the Financial Superintendence of</td>
</tr>
<tr>
<td>Nature of Transaction</td>
<td>Colombia: &lt;60%</td>
<td>Colombia: &lt;60%</td>
<td>Colombia: &lt;60%</td>
</tr>
<tr>
<td>-----------------------</td>
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<td>----------------</td>
</tr>
<tr>
<td>Derivatives: &lt;2% not for hedging</td>
<td>Securitisation of mortgage portfolio: &lt;15%</td>
<td>Other securitised products: &lt; 10%</td>
<td>Structured products with capital protection: &lt;5%</td>
</tr>
<tr>
<td>Active REPOS: &lt;5%</td>
<td>Loans: not permitted</td>
<td>Bank Deposits: &lt;5%</td>
<td>Bank Deposits: &lt;5%</td>
</tr>
<tr>
<td>Passive REPOS: &lt;1%; these operations can only be used to meet members' retirement from the fund, or fund expenses of the types of mandatory pension funds, on admissible investments.</td>
<td>Structured products with capital protection: Not permitted</td>
<td>Loans: not permitted</td>
<td>Bank Deposits: &lt;5%</td>
</tr>
<tr>
<td>Security lending operations: &lt;10%</td>
<td>Loans: not permitted</td>
<td>Bank Deposits: &lt;5%</td>
<td>Bank Deposits: &lt;5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Vehicle (indirect investment)</th>
<th>Colombia: &lt;60%</th>
<th>Colombia: &lt;60%</th>
<th>Colombia: &lt;60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open-ended Collective Investment Schemes without requirements to remain in the scheme: &lt;5%</td>
<td>Securitisation of mortgage portfolio: &lt;15%</td>
<td>Other securitised products: &lt; 10%</td>
<td>Structured products with capital protection: &lt;5%</td>
</tr>
<tr>
<td>Open-ended Collective Investment Schemes with requirements to remain in the scheme: Not permitted</td>
<td>Loans: not permitted</td>
<td>Bank Deposits: &lt;5%</td>
<td>Bank Deposits: &lt;5%</td>
</tr>
<tr>
<td>Private equity fund: Not permitted</td>
<td>Loans: not permitted</td>
<td>Bank Deposits: &lt;5%</td>
<td>Bank Deposits: &lt;5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Foreign investment</th>
<th>Colombia: &lt;60%</th>
<th>Colombia: &lt;60%</th>
<th>Colombia: &lt;60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total: &lt; 40%</td>
<td>Investment grade and regulated markets only</td>
<td>Investment grade and regulated markets only</td>
<td>Investment grade and regulated markets only</td>
</tr>
<tr>
<td>Investment grade and regulated markets only</td>
<td>Foreign currency exposure: &lt;10%</td>
<td>Foreign currency exposure: &lt;10%</td>
<td>Foreign currency exposure: &lt;10%</td>
</tr>
<tr>
<td>Foreign currency exposure: &lt;10%</td>
<td>Investment grade and regulated markets only</td>
<td>Investment grade and regulated markets only</td>
<td>Investment grade and regulated markets only</td>
</tr>
</tbody>
</table>

| Source: OECD Annual Survey of Investment Regulation of Pension Funds |
E. Asset allocation and performance

The total value of investments in the GPS private pension scheme amounted to EUR 44.7 billion at the end of 2013. This reflected an increase in assets under management of 6.4% as compared with the end of 2012 (OECD Global Pension Statistics Database). Eighty-six percent of total assets in the private pension scheme are invested in the moderate risk fund, which allows direct investment in equities of up to 45% (see table A3). This is also the default option for those who do not make an active investment choice. Less than 1% of all assets are invested in the high risk fund which is subject to similar investment restrictions to the moderate fund. Investment in the conservative fund amounts to 7% of total assets. A programmed withdrawal fund holds 6% of total assets for retirees who have chosen to have their benefits paid out as programmed withdrawals. This fund is subject to the same investment restrictions as conservative funds.

![Figure A4. Total investment by type of fund in the GPS private pension scheme, December 2013](source: SFC)

Totals assets under management nearly doubled between 2007 and the end of 2013. The overall investment strategy has become slightly more aggressive, with the share of assets invested in equities increasing by nearly 10% of total assets under management during this period.

At the end of 2013, just over half of all assets were invested in bills and bonds, of which 43% was direct investment in public sector bonds, compared to only 13% in 2007. Direct investment accounted for 82% of investment in shares in 2013, with the remaining 18% representing indirect investment through collective investments schemes. The percentage of assets invested in collective investment schemes has more than doubled since 2007. Other investment also includes investment in structured products and private equity.
Real returns on investment have been markedly volatile over the last decade, ranging from a low of -3.7% in 2011 to a high of 24.3% in 2009. The real annual return on investment for 2013 was -2.2%. The average real annual return from 2008 to 2012 was 10.3%, calculated as a geometric average (Pension Markets in Focus, OECD 2013). Real investment returns in Figure A6 are calculated as the ratio between the net investment income at the end of the year and the average level of assets during the year adjusted for the variation in the Consumer Price Index.

Foreign investment within the GPS private pension scheme peaked in 2010 at over 16% of total investment, with 27% of total equity exposure coming from direct investment in shares issued abroad. Foreign investment has reduced significantly since then, representing less than 4% of total assets in 2013 although there has been no significant change to the investment restrictions on foreign investments according to the OECD Annual Survey of Investment Regulation of Pension Funds.
F. Pension benefit payments

As of December 2013, 16,729 old age pensioners received benefits from the private pension scheme. This represents less than 2% of all old age pensioners affiliated to the GPS. The number of old age pensioners affiliated with the private pension system has increased by nearly 350% since the end of 2007.

Only 15% of old age pensioners from the private scheme receive their benefits as a life annuity. The vast majority of individuals opt for programmed withdrawals. Only two individuals have opted to receive temporary programmed withdrawals combined with a deferred life annuity (included in ‘Other’ in figure A8). If individuals have not contributed for sufficiently long periods upon reaching the retirement age or accumulated sufficient assets at retirement, they may withdraw their assets as a lump sum. Little data is available regarding the number of individuals taking a lump sum.

According to the OECD methodology for calculating gross average replacement rates, a male average earner, contributing from the age of 20 to the retirement age, will obtain a replacement rate of 70.8% from the GPS public defined benefit scheme. For individuals earning 50% of the median income, the replacement rate is 103%. The relative elderly poverty rate is 19% based on 50% of the median per
capita income (OECD Pensions at a Glance 2013). Replacement rate calculations are not available for those affiliated to the private pension scheme.

Figure A9. Replacement rates by contribution density and wage level, DB scheme

G. Demographics

The population of Colombia has been aging over the last 15 years, with the proportion of the population over the age of 65 growing from 5.7% to 7.5%. The old-age dependency ratio, which is the ratio of people of working age (15-64) to those of pensionable age (65+) has decreased from 10.6 to 8.8 over the same period, and is projected to be 7.8 by 2020. The average life expectancy from 2010-2015 at age 65 was 16.3 years for males and 18.6 years for females.

Figure A10. Age structure of the population, 2000 and 2015