

Pensions at a Glance 2023



Costa Rica

Costa Rica: Pension system in 2022

The Costa Rican pension system is multi-tiered. There is a contributory earnings-related public pension With a supplementary mandatory savings programme based on individual accounts. A social assistance programme provides a means-tested minimum income guarantee.

Key Indicators: Costa Rica

		Costa Rica	OECD
Average worker earnings (AW)	CRC (million)	10.1	26.7
	USD	15 669	41 261
Public pension spending	% of GDP	5.1	7.7
Life expectancy	at birth	77.4	80.7
	at age 65	82.4	84.6
Population over age 65	% of working-age population	17.5	31.3

Qualifying conditions

In the earnings-related old-age, disability and survivors scheme (Régimen de Invalidez, Vejez y Muerte - IVM), employees are entitled to retire with an old-age pension at age of 65 if they have at least 300 months of contributions.

Anyone who has not made 300 contributions receives a proportional pension, if they have made at least 180 contributions to the disability, old-age and survivors' pension system, and are at least 65 years of age. In this case, the amount of the proportional pension is calculated as the amount of the corresponding old-age pension multiplied by the number of monthly contributions, divided by 300.

This pension scheme financed from the National Budget is administered by the National Directorate of Pensions (DNP). According to Law N ° 9380, active employees and pensioners are obliged to contribute monthly between 9% and 16% of the amount of salary or pension, according to the following table:

Salary or pension level	% of contribution
Up to 3 SBMB*	9%
Between 3 and 4 SBMB*	13%
About the excess of 4 SBMB*	16%

*SBMB Lowest base salary in public administration (Salario base más bajo de la administración pública).
SBMB = CRC 287 000

The benefits of the mandatory individual account scheme – Régimen Obligatorio de Pensiones Complementarias (ROP) - are obtained when the member presents to the pension administrator a certification that he has complied with the pension requirements of the IVM Scheme or of the substitute public scheme to which she has belonged.

The benefits derived from the Voluntary Regime are eligible based on the contracts, but not before the beneficiary reaches 57 years of age, except in the case of disability or terminal illness, qualified by the Social Security agency (CCSS) or in the event of death.

Benefit calculation

Earnings-related

In IVM the amount of the disability or old-age pension includes a “basic” benefit amount equal to a percentage of the average salary for the first 25 years of contributions (300 contributions) depending on the level of earnings (43-52.5% decreasing by wage level). The additional rate for each month contributed is 0.0833% after 300 months. This accrual rate is then multiplied by the reference salary. The reference salary of the insured is calculated as the average earnings in the last 60 months in which contributions were made, adjusted for inflation.

The minimum monthly base contribution wage for the IVM benefits is CRC 300 000. The Board of Directors of the Costa Rican Social Security Fund (CCSS) approved a modification to the minimum contributory base of the health and pensions sector that will allow informal workers to insure themselves from CRC150 000 (part-time shift), changes that will take effect in 2023. There is no maximum base contribution wage for the purpose of calculating benefits.

Disability and survivor’s benefits are paid by the public system. Benefits can be taken as indexed annuities or programmed retirement.

The minimum pension was CRC 142 517, and the maximum pension was CRC 1 666 062 (with no delay) and CRC 2 357 477(for late retirement). Payments are made 13 times a year. Pensions are indexed to consumer prices.

Pension Scheme financed from the National Budget has a cap on new pensions of 10 salaries (SBMB).

Social welfare pension

There is a non-contributory basic pension (RNC) for people aged 65 and over for disability or survival that does not fall within the contributory regimes and is only for the needy. The amount of the benefit is CRC 82 000 per month, 10.5% of average earnings, with 13 payments annually. In addition, the cost of the public health insurance service is paid (the “Seguro de enfermedad y maternidad”, equal to 14.25% of the pension). This program is managed by the CCSS and financed with resources from the Social Development and Family Assistance Fund and certain specific taxes.

Funded defined contribution

The contribution rate for the mandatory individual account is 1% of earnings with a further 3.25% being contributed by employers. Contributions are not paid on the 13th monthly wage and there is no earnings ceiling. The value of the pension depends on the contributions made by the insured plus the accumulated interest. The insured can choose to receive the pension as an annuity or under a programmed retirement scheme.

Variant careers

Early retirement

Those insured that opt for early retirement must cover the missing contributions when they retire.

In order to draw a full pension and retire early, the insured must meet the requirements of both age and number of contributions.

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As of January 2024, the early pension for men is eliminated and that for women goes to 63 years of age with 405 instalments (previously it was 59 years and 11 months).

Late retirement

Insured persons who meet the requirements for the old-age pension have the right to an additional pension if they delay retirement, starting from the date on which the legal and regulatory requirements were met, with no age limit. This additional pension consists of 0.1333% per month (1.6% annually) over the average reference wage. The amount of the additional pension for delaying retirement added to the amount of the calculated pension must not exceed 125% of the salary.

Childcare

Maternity leave includes a period of 4 months, one month before giving birth and three months after birth.

Maternity leave should not affect pensions because contributions to pension schemes are made on 100% of salary.

Unemployment

There is no coverage for unemployment by the IVM and alternative regimes.

However, there is the Labour Capitalization Fund (FCL), an individual capitalization fund administered by pension operators, which is made up of 1.5% of the worker's monthly salary. The worker or his successors in title will have the right to withdraw the accumulated labour savings, in the event of:

- a) The employment relationship is terminated, for any reason.
- b) In case of death.
- c) During the employment relationship, the worker will have the right to withdraw the labour savings every five years.
- d) In the event of temporary suspension of the employment relationship, or when a reduction of the ordinary working day of the worker is applied, which implies a decrease in their salary.

Self-employed

The self-employed are covered by general social security system: the Disability, Old Age and Death Regime run by the CCSS (RIVM by its acronym in Spanish). The self-employed contribute between 6.72% and 18.78% on the gross income (before paying health and pension contributions)

For self-employed workers whose net income is less than the legal minimum wage and who request their affiliation to the Disability, Old Age and Death Regime of the CCSS, the State contribution will be increased in order to partially correct the absence of the employer contribution.

Benefits: access to medical and surgical services in clinics and hospitals in the country, receive payments for disability subsidies or maternity, contribute mandatory to the pension scheme, so that, you get pension for disability or old age and protects beneficiaries in the event of death. Also, can receive financial help for the purchase of prostheses, glasses, and funeral expenses.

Personal income tax and social security contributions

Taxation of pensioners

Pensions are taxable using the same scale that applies to workers' earnings.

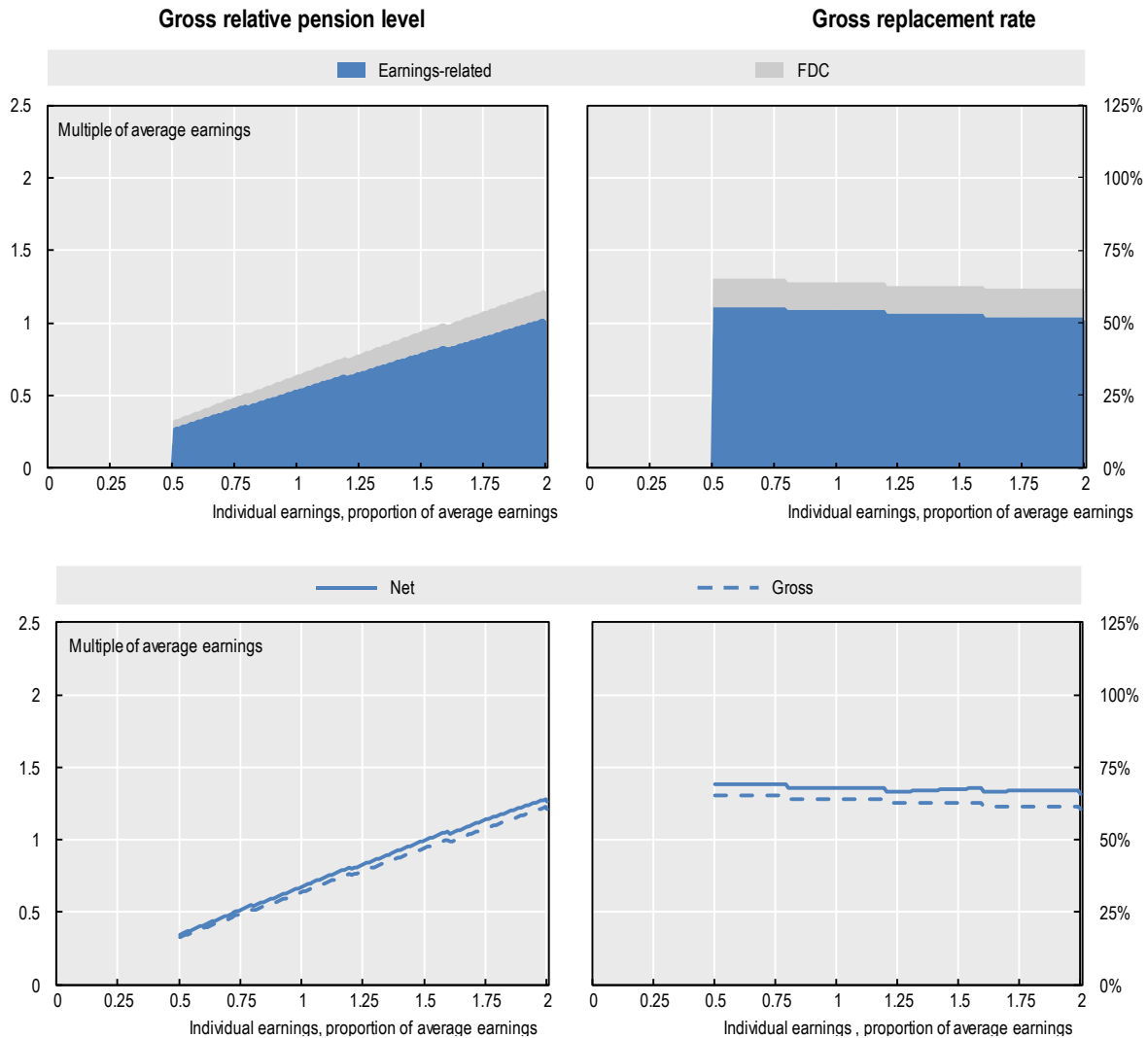
Taxation of pension income

Pensions are taxable using the same scale that applies to workers' earnings.

Social security contributions paid by pensioners

The cost of social security insurance for pensioners receiving disability, old age and death scheme is covered entirely by the Disability, Old and Death Pension Fund. Pensioners under this scheme do not contribute to social security.

Pension modelling results: Costa Rica in 2065 retirement at age 65 (men)



Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Women (where different)						
Gross relative pension level	32.7	49.0	64.1	94.3	120.7	177.3
(% average gross earnings)	31.3	47.0	61.5	90.3	115.4	169.3
Net relative pension level	34.5	51.8	67.8	99.7	126.2	179.0
(% net average earnings)	33.1	49.7	65.0	95.5	121.2	171.9
Gross replacement rate	65.3	65.3	64.1	62.9	60.4	59.1
(% individual gross earnings)	62.7	62.7	61.5	60.2	57.7	56.4
Net replacement rate	69.1	69.1	67.8	67.5	65.7	64.3
(% individual net earnings)	66.3	66.3	65.0	64.7	63.0	61.7
Gross pension wealth	12.9	12.9	12.7	12.4	11.9	11.7
(multiple of individual gross earnings)	14.3	14.3	14.1	13.8	13.2	12.9
Net pension wealth	13.7	13.7	13.4	13.4	13.0	12.7
(multiple of individual net earnings)	15.2	15.2	14.9	14.8	14.4	14.1

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.