



# URUGUAY: A mixed reform

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# Basic Country Information

● Population	3.300.000	
● Economically Active Population	1.240.000	
● Unemployment Rate	13%	
● Age Group 65 or older	13,5%	
● Age Group 15 – 65 years	63,0%	
● Life Expectancy at Birth	76 years	
● Crude Birth Rate (per thousand)	14,9	
● Average Annual Rate of Growth	0,6%	
● GDP per capita (2004)	US\$ 4.078	
● Unemployment Rate	13%	
● Beneficiaries of Pension	900.000	
● Social Insurance Budget	18% GDP	
■ Pensions Budget		15% GDP
■ Others		3% GDP
● Workers affiliated with social security (2005)	1.100.000	
● Workers affiliated with AFAPs	672.000	
● Retirement Saving Funds	12% GDP	

# The Design of the 1995 Reform

## Key 1: Old, Transitional, and New Systems

### ● Old system

- For affiliates with acquired pension rights by December 31st 1996:

The old system was maintained – new regime only applied if it would result in more favorable benefits

### ● Transitional system

- For affiliates 40 or older on April 1st 1996.

A parametric reform of the PAYG system (no savings pillar for this group of affiliates)

### ● New mixed system

- Mandatory for affiliates younger than 40 on April 1st 1996 and for those entering the labor force for the first time
- Optional for affiliates in old and transition systems

# The Design of the 1995 Reform

## Key 2: Salary Levels

### The Mixed System

- Salary Level # 1: UY\$ 5,000 (US\$ 520)
  - Mandatory first pillar (PAYG) for all affiliates for the band (tier) of personal salary up to Salary Level # 1
  - Optional second pillar (Saving) – Workers can opt to contribute half to each pillar
- Salary Level # 2: UY\$ 15,000 (US\$ 1,560)
  - Mandatory second pillar for the band (tier) of personal salary between Salary Level # 1 and Salary Level # 2
- Salary Level # 3: UY\$ 15,000
  - Optional / voluntary saving

# Financing

- Employee contributes 15% of salary up to the contribution ceiling (Salary Level # 2) between the two pillars
- Employer contribution of 12,5% up to Salary Level # 2, deposited to PAYG system (old, transition and first pillar of new)
- Central Government contribution if needed to balance PAYG system

# First pillar

- Mandatory for all affiliates for the band of personal salary until Level # 1 ceiling
- PAYG benefit ceiling of 82,5% of Salary Level # 1
- Defined benefits
- Parametric Reform
  - Reduction of Replacement Rate
  - Reference Salary (20 years)
  - Minimum Retirement Age of Women: 60 years
  - Labor History
- Re-distributive benefits formula for lower salaries
- Public administration – Banco de Previsión Social

# Second pillar

- Mandatory for all affiliates for the band of personal salary from Level # 1 to Level # 2
- Individual saving accounts for old age (defined contributions)
- Group insurance for disability and survivorship (defined benefits)
- Private administration
  - AFAPs – Retirement Saving Fund Administrator
    - The largest AFAP is state-owned and controls 56% of assets, 38% of affiliates
    - Mission 1: to invest the pension fund (trust) according to legal regulations
    - Mission 2: to maintain updated individual savings accounts data
    - AFAPs receive a commission for their work
  - Authorized insurance company
    - Group insurance
    - Life annuities
- Supervision and Regulation by the Central Bank

# ¿How Is the Uruguayan Reform Mixed?

- Public and Private Actors
- Defined Benefit and Defined Contributions
- Income in old age will come from defined benefit formula (public responsibility) and from defined contribution plan (private responsibility)
  - Lower salaried workers will obtain more income from public PAYG system
  - Public resources will be directed to lower-wage workers
  - Higher wage workers will obtain more income from private saving pillar
- Retirement Saving Fund Administrators
  - Stock in largest fund publicly held
  - Private Stockholders

# Design Challenges

## ● Central Role of Public Institutions

- BPS (Social Security Bank)– Administrative Capacity
  - Collecting payments
  - Distribution between Levels or Pillars
  - Distribution according AFAPs options
  - Labor History
- República AFAP (largest AFAP is state-owned)
  - How to avoid classic inefficiencies of public administration
  - Competition with private AFAPs
- Supervision
  - Central Bank - Independence

## ● Introduction into the Financial Markets

- Investment policies
- Transition costs
- Regulation

# Other Challenges

- 2002 Financial Crisis: The deepest in the history of the country
  - In the face of fraud: controls worked
  - Investment concentration in debts issued by public sector
  
- Political Opposition
  - 1996: Strong opposition from unions, pensioner organizations and one important political party
  - 2005: The reform's critics win the presidential/legislative election. Different trends for the new Administration

# Twelve Remarks From Uruguayan Experience

1. The coverage as responsibility of public pillar does work
2. There are not evidence of incidence of second pillar (saving) in coverage
3. There are significant re-distributive effects in first level (minimum and benefits formula)
4. The size of first pillar depended on affordability of transition costs
5. All affiliates are part of first level or pillar
6. AFAPs competition is based on sales force
7. There is not evidence of sensibility about costs and profitability
8. It was expected that administrative costs of second pillar would be lower
9. The design mantains safety of the funds when faced with financial system fraud
10. The concentration of assets issued by public institutions is a very large risk
11. Elderly income from first pillar will be the main earnings for the majority of workers, especially those with low and medium salaries (even after maturation of new mixed system)
12. Elderly income from the second pillar will increase with better salaries

Chart No 1  
Weight of Social Security Expenditures on Central Government Nominal Outlay  
Structure

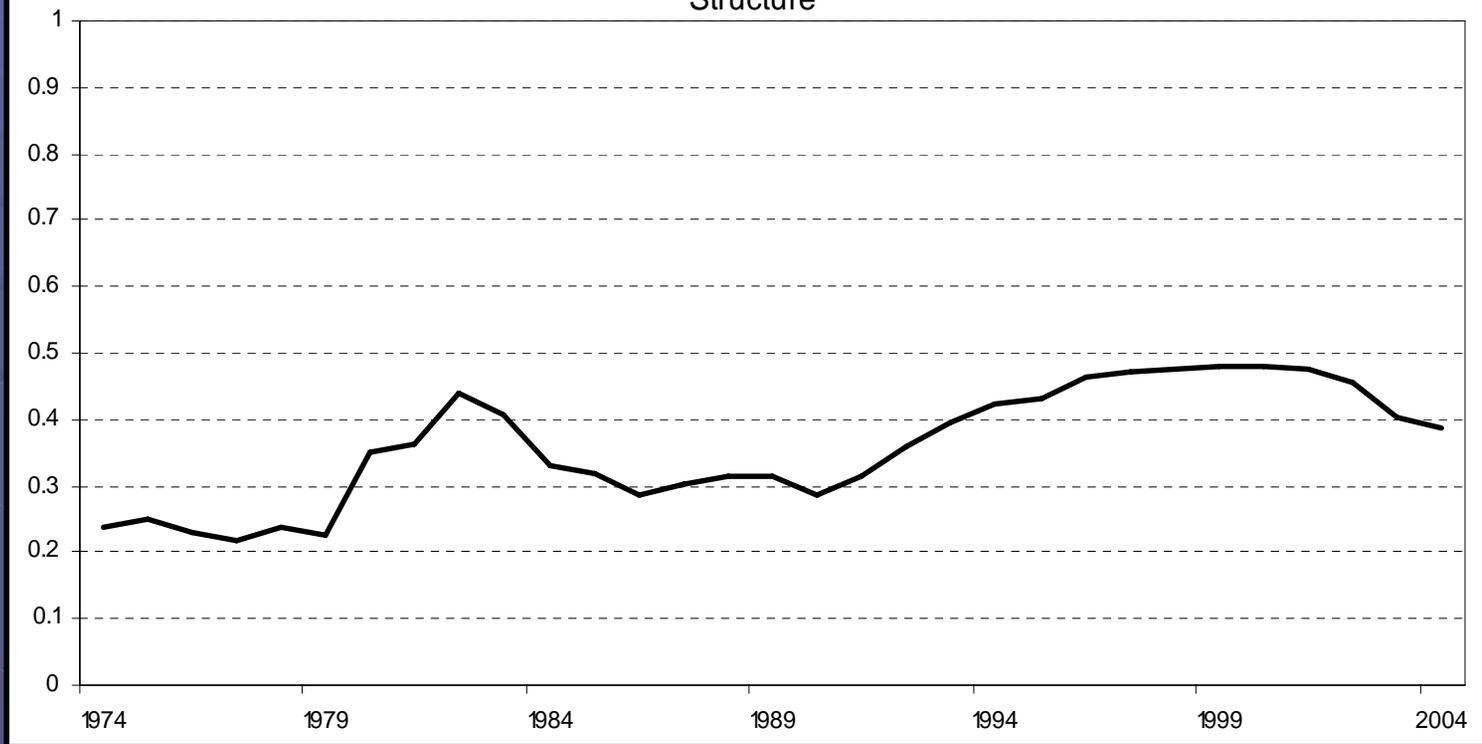


Table N° 2  
Country Population by Age Group

Year	Total	Age Group					Ignored
		0-14	15-59	15-64	60 or more	65 or more	
1908	1,042,686	40.94%	54.99%	-	3.92%	-	0.15%
1963	2,595,510	27.94%	59.67%	-	11.51%	-	0.88%
1975	2,788,429	26.99%	58.68%	-	14.33%	-	-
1985	2,955,241	26.73%	57.47%	-	15.80%	-	-
1996*	3,235,549	25.50%	-	61.70%	-	12.80%	-
2005*	3,305,723	23.90%	-	62.80%	-	13.30%	-
2015*	3,415,866	21.10%	-	65.00%	-	13.90%	-
2025*	3,519,821	20.00%	-	64.30%	-	15.70%	-

\*Projections by INE

Source: Own computation based on INE

Table N° 3  
Demographic Indicators

Year	Life Expectancy at Birth	Crude Birth Rate (per thousand)	Infant Mortality Rate (per thousand)
1964	68.46	20.68	50.82
1976	68.89	20.83	45.92
1986	71.65	17.86	27.79
1996	73.30	18.16	17.55
2000*	74.87	15.87	13.80
2005*	75.60	14.86	14.20
2010*	76.23	14.42	12.86
2020*	77.92	13.67	9.76
2025*	78.61	13.03	8.62

\*Projections by INE (National Statistics Institute)

Source: Own computation based on INE

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Demographic Indicators

Year	Life Expectancy at Birth	Crude Birth Rate (per thousand)	Infant Mortality Rate (per thousand)
1964	68.46	20.68	50.82
1976	68.89	20.83	45.92
1986	71.65	17.86	27.79
1996	73.30	18.16	17.55
2000*	74.87	15.87	13.80
2005*	75.60	14.86	14.20
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2020*	77.92	13.67	9.76
2025*	78.61	13.03	8.62

\*Projections by INE (National Statistics Institute)

Source: Own computation based on INE

Table Nº 4  
**Employment-Unemployment Indicators**

Year	Activity Rate (1)	Unemployment Rate (2)
1986	56.20	10.10
1987	57.60	9.10
1988	57.10	8.60
1989	57.70	8.00
1990	57.00	8.50
1991	57.40	8.90
1992	57.40	9.03
1993	56.70	8.33
1994	58.20	9.20
1995	59.00	10.30
1996	58.20	11.90
1997	57.60	11.40
1998	60.40	10.10
1999	59.30	11.30
2000	59.60	13.60
2001	60.60	15.30
2002	59.10	16.96
2003	58.12	16.90
2004	58.48	13.07

(1) Economically Active Population with respect to population older than 14

(2) Unemployed with respect to Economically Active Population

Source: Own computation based on INE

Table N° 5  
**Central Government Expenditures on Social Security**  
 (Thousands of Nominal Dollars)

Year	Central Government Outlays on Social Security	Central Government Total Indexed Outlays (1)	Weight of Social Security Expenditures on Central Government Nominal Outlay Structure
1974	103,594.35	438426.11	23.63%
1975	113,533.83	457518.80	24.82%
1976	115,718.16	505420.05	22.90%
1977	128,118.39	590697.67	21.69%
1978	157,635.47	667816.09	23.60%
1979	210,318.47	928152.87	22.66%
1980	506,923.08	1439252.75	35.22%
1981	634,288.35	1740397.41	36.45%
1982	870,237.24	1977217.83	44.01%
1983	389,548.35	960026.06	40.58%
1984	298,485.12	901067.55	33.13%
1985	261,358.04	824007.10	31.72%
1986	276,970.14	965530.85	28.69%
1987	347,568.02	1155166.03	30.09%
1988	396,553.07	1254071.50	31.62%
1989	414,926.26	1327575.10	31.25%
1990	378,246.02	1322066.52	28.61%
1991	512,216.11	1628395.94	31.46%
1992	709,677.27	1987605.18	35.71%
1993	943,049.01	2392113.32	39.42%
1994	1,238,793.63	2934836.78	42.21%
1995	1,441,247.43	3334299.68	43.22%
1996	1,712,481.27	3681136.15	46.52%
1997	1,894,431.05	4018069.40	47.15%
1998	1,972,784.57	4132022.44	47.74%
1999	2,090,238.10	4353561.82	48.01%
2000	2,056,682.64	4269617.13	48.17%
2001	1,989,804.10	4176206.71	47.65%
2002	1,439,320.12	3169018.31	45.42%
2003	1,109,256.44	2759290.02	40.20%
2004	1,154,658.82	2992841.55	38.58%

Table N° 7  
**FAP's Assets Consolidated and by AFAP**  
 (June 2005 values)

	System		Afinidad		Integración		República		Unión Capital	
	<i>Thousands of Pesc</i>	<i>% s/total</i>	<i>housands of Pesc</i>	<i>% s/total</i>						
Resources Available	4,705,871	9.98	589,794	7.01	322,912	8.12	2,887,196	10.87	905,969	11.1
en m.n.	820,278	1.74	51,622	0.61	91,751	2.31	610,110	2.3	66,795	0.82
en m.e.	3,885,593	8.24	538,172	6.4	231,161	5.81	2,277,086	8.57	839,174	10.28
Investments	42,429,893	90.02	7,823,148	92.99	3,654,353	91.88	23,692,747	89.14	7,259,645	88.9
National Currency	24,202,523	51.35	4,578,017	54.42	2,039,376	51.28	13,633,499	51.29	3,951,631	48.39
In Uruguayan P	1,941,654	4.12	86,388	1.03	56,922	1.66	1,738,113	6.54	51,231	0.63
En Valores Rea	22,260,869	47.23	4,491,629	53.39	1,973,454	49.62	11,895,386	44.75	3,900,400	47.77
Foreign Currency	18,227,370	38.67	3,245,131	38.57	1,614,977	40.61	10,059,248	37.85	3,308,014	40.51
Fund's Total Assets	47,135,767	100	8,412,942	100	3,977,264	100	26,579,946	100	8,165,614	100
Special Reserve	240,911	0.51	43,059	0.51	19,913	0.5	136,160	0.51	41,779	0.51
Social Security Savings Fund (FAP)	46,894,856	99.49	8,369,883	99.49	3,957,351	99.5	26,443,786	99.49	8,123,836	99.49

Source: Own computation based on BCU Quarterly Bulletins

Table N° 9  
**Affiliate Distribution by AFAP -- Market Concentration**  
 (to December of each year)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
<i>Tot. affiliates</i>	300,798	442,903	499,865	531,190	565,324	593,736	613,432	632,330	655,204	672,080
<i>Share by AFAPs</i>										
Capital	8.75%	11.78%	12.47%	12.76%	13.42%	-	-	-	-	-
Comercial	16.87%	16.25%	17.34%	17.27%	17.92%	-	-	-	-	-
Integración	15.93%	15.02%	14.29%	13.61%	13.29%	13.22%	13.27%	13.59%	13.98%	14.16%
República	39.49%	36.81%	37.29%	37.93%	37.64%	37.74%	38.14%	37.98%	37.77%	37.66%
Santander	13.49%	14.48%	12.85%	12.64%	11.93%	-	-	-	-	-
Unión	5.47%	5.65%	5.76%	5.79%	5.80%	-	-	-	-	-
Afinidad	-	-	-	-	-	29.72%	29.51%	29.41%	28.89%	28.65%
Unión Capital	-	-	-	-	-	19.32%	19.08%	19.02%	19.36%	19.53%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<i>Avg HHI</i>	0.239	0.223	0.225	0.228	0.227	0.286	0.287	0.285	0.283	0.282

\* Values to June 2005

Source: Own computation based on BCU Quarterly Bulletins

Table Nº 10  
**System Affiliates' Movility**  
 (December of each year)

	1997	1998	1999	2000*	2000**	2001	2002	2003	2004	2005
<b>Accumulated Transfers</b>	38,747	41,219	37,374	36,579	72	355	1,275	449	336	282

\* Accumulated Transfers, January-October 2000.

\*\* Accumulated Transfers, November-December 2000.

Source: Own computation based on BCU Quarterly Bulletins



Table N° 11  
**Retirement Saving Fund (FAP)**  
 (December of each year)

*FAP by AFAP in Thousands of Dollars*

	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Capital</b>	3,146	13,011	25,420	40,320	70,356	N.C.	N.C.	N.C.	N.C.
<b>Comercial</b>	5,311	18,769	40,343	65,292	81,983	N.C.	N.C.	N.C.	N.C.
<b>Integración</b>	4,508	19,000	39,994	56,984	68,917	87,181	75,488	102,529	140,572
<b>República</b>	29,880	109,501	206,157	331,463	454,491	590,195	508,058	700,479	948,815
<b>Santander</b>	6,865	24,035	40,961	54,557	69,973	N.A.	N.A.	N.A.	N.A.
<b>Unión</b>	644	6,185	21,472	42,545	65,306	N.A.	N.A.	N.A.	N.A.
<b>Afinidad</b>	N.A.	N.A.	N.A.	N.A.	N.A.	190,598	159,225	218,232	299,309
<b>Uni. Capital</b>	N.A.	N.A.	N.A.	N.A.	N.A.	177,428	150,593	210,838	289,564

<b>System</b>	50,355	190,501	374,347	591,161	811,026	1,045,402	893,364	1,232,079	1,678,261
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<b>FAP as % of GDP</b>	0.3%	0.9%	1.7%	2.9%	4.2%	5.9%	9.3%	10.4%	11.7%
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*AFAP's Market Share in Percentages*

	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Capital</b>	6.2%	6.8%	6.8%	6.8%	8.7%	N.C.	N.C.	N.C.	N.C.
<b>Comercial</b>	10.5%	9.9%	10.8%	11.0%	10.1%	N.C.	N.C.	N.C.	N.C.
<b>Integración</b>	9.0%	10.0%	10.7%	9.6%	8.5%	8.3%	8.4%	8.3%	8.4%
<b>República</b>	59.3%	57.5%	55.1%	56.1%	56.0%	56.5%	56.9%	56.9%	56.5%
<b>Santander</b>	13.6%	12.6%	10.9%	9.2%	8.6%	N.C.	N.C.	N.C.	N.C.
<b>Unión</b>	1.3%	3.2%	5.7%	7.2%	8.1%	N.C.	N.C.	N.C.	N.C.
<b>Afinidad</b>	N.C.	N.C.	N.C.	N.C.	N.C.	18.2%	17.8%	17.7%	17.8%
<b>Uni. Capital</b>	N.C.	N.C.	N.C.	N.C.	N.C.	17.0%	16.9%	17.1%	17.3%
<b>Sistema</b>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

N.A.: It does not apply since the Administrator has not been created or it has merged.

Source: Own computation based on BCU Quarterly Bulletins

Table N° 12  
**FAP's Assets Consolidated and by AFAP**  
 (June 2005 Values)

	System		Afinidad		Integración		República		Unión Capital	
	Thousands of Pesc	% s/total								
Resources Available	4,705,871	1.74	589,794	7.01	322,912	8.12	2,887,196	10.87	905,969	11.1
In national currency	820,278	8.24	51,622	0.61	91,751	2.31	610,110	2.3	66,795	0.82
In foreign currency	3,885,593		538,172	6.4	231,161	5.81	2,277,086	8.57	839,174	10.28
Investments	42,429,893	90.02	7,823,148	92.99	3,654,353	91.88	23,692,747	89.14	7,259,645	88.9
National currency	24,202,523	51.35	4,578,017	54.42	2,039,376	51.28	13,633,499	51.29	3,951,631	0.63
In Uruguayan p	1,941,654	4.12	86,388	1.03	56,922	1.66	1,738,113	6.54	51,231	48.39
En Valores Rea	22,260,869	47.23	4,491,629	53.39	1,973,454	49.62	11,895,386	44.75	3,900,400	47.77
Foreign currency	18,227,370	38.67	3,245,131	38.57	1,614,977	40.61	10,059,248	37.85	3,308,014	40.51
Fund's Total Assets	47,135,767	100	8,412,942	100	3,977,264	100	26,579,946	100	8,165,614	100
Special Reserve	240,911	0.51	43,059	0.51	19,913	0.5	136,160	0.51	41,779	
Social Security Savings Fund (FAP)	46,894,856	99.49	8,369,883	99.49	3,957,351	99.5	26,443,786	99.49	8,123,836	

Source: Own computation based on BCU Quarterly Bulletins

Table Nº 13  
**Investments according to Article 123, Law 16.713**  
 (June 2005 Values)

	% of total					<i>Legal Ceiling</i>
	<b>System</b>	<b>Afinidad</b>	<b>Integración</b>	<b>República</b>	<b>Unión Capital</b>	
A) Treasuries Issued by the State	0	58	56	58	58	60%
B) Treasuries Issued by BCU	0	26	25	23	21	30%
C) CDs in Financial Institutions	0	5	8	4	5	30%
D) Negotiable Obligations	0	0	1	2	1	25%
E) Treasuries Representing Investments	0	2	2	2	2	20%
F) Loans to Affiliates	0	1	1	1	1	15%
+F	0	35	36	31	31	70%
Resources Available	0	7	8	11	11	<i>Without ceiling</i>

Source: Own computation based on BCU Quarterly Bulletins

Table N° 14  
**AFAPs' Gross Profitability**

*In % of US\$*

<b>AFAP</b>	<b>Month September</b>	<b>January- September</b>	<b>Last 12 months</b>	<b>Histórica Anualizada</b>
Afinidad	2.37	18.1	31.53	9.77
Integración	2.27	17.38	29.85	9.47
República	2.34	17.02	29.36	9.28
Unión Capital	2.21	18.27	31.21	10.41
<b>Average</b>	<b>2.31</b>	<b>17.49</b>	<b>30.15</b>	<b>9.59</b>

*In Nominal Dollars*

<b>AFAP</b>	<b>Month September</b>	<b>January- September</b>	<b>Last 12 months</b>	<b>Histórica Anualizada</b>
Afinidad	0.51	2.5	9.07	12.21
Integración	0.41	1.86	7.68	11.91
República	0.49	1.56	7.27	11.71
Unión Capital	0.36	2.64	8.8	12.86
<b>Average</b>	<b>0.46</b>	<b>1.96</b>	<b>7.93</b>	<b>12.03</b>

Source: Weekly Journal Busqueda

Table Nº 17  
System Commission Levels by AFAP  
(annual averages)

**Fixed Commissions**

(In nominal pesos with respect to income for contributions)

	1996	1997	1998	1999	2000	2001*	2002	2003	2004	2005
Capital	-	-	-	-	-	13.000	N.A.	N.A.	N.A.	N.A.
Comercial	-	-	-	-	-	-	N.A.	N.A.	N.A.	N.A.
Integración	-	-	-	-	8.000	8.000	8.000	-	-	-
República	-	-	-	-	-	-	-	-	-	-
Santander	-	-	-	-	-	-	N.A.	N.A.	N.A.	N.A.
Unión	22.100	-	-	-	-	13.000	N.A.	N.A.	N.A.	N.A.
Afinidad	N.A.	N.A.	N.A.	N.A.	N.A.	-	-	-	10.314	10.998
Uni. Capital	N.A.	N.A.	N.A.	N.A.	N.A.	13.000	13.040	13.523	14.460	15.590

Note: It did not establish fixed commissions during the year.

**Variable Commissions**

(percentage of income for contributions)

	1996	1997	1998	1999	2000	2001*	2002	2003	2004	2005
Capital	2.200	2.200	2.200	2.200	2.200	2.151	N.C.	N.C.	N.C.	N.C.
Comercial	1.967	1.955	1.955	1.955	1.955	1.955	N.C.	N.C.	N.C.	N.C.
Integración	2.217	2.200	2.200	2.200	2.171	2.150	2.038	2.018	2.053	2.070
República	2.000	2.000	1.998	1.970	1.959	1.836	1.793	1.793	1.767	1.578
Santander	2.250	2.250	2.250	2.250	2.213	2.030	N.A.	N.A.	N.A.	N.A.
Unión	1.605	1.659	1.820	1.820	1.820	1.927	N.A.	N.A.	N.A.	N.A.
Afinidad	N.A.	N.A.	N.A.	N.A.	N.A.	1.955	1.955	1.955	1.955	1.955
Uni. Capital	N.A.	N.A.	N.A.	N.A.	N.A.	1.980	1.980	1.863	1.980	1.578

**Insurance Premium**

(percentage of income for contributions)

	1996	1997	1998	1999	2000	2001*	2002	2003	2004	2005
Capital	0.895	0.717	0.608	0.700	0.892	0.800	N.A.	N.A.	N.A.	N.A.
Comercial	0.988	0.703	0.566	0.719	0.600	0.900	N.A.	N.A.	N.A.	N.A.
Integración	0.900	0.767	0.650	0.650	0.725	0.825	1.120	1.165	1.113	1.125
República	0.877	0.708	0.553	0.580	0.591	0.707	0.750	0.750	0.766	0.940
Santander	1.010	0.723	0.640	0.680	0.717	0.900	N.A.	N.A.	N.A.	N.A.
Unión	0.875	0.791	0.630	0.630	0.644	0.800	N.A.	N.A.	N.A.	N.A.
Afinidad	N.A.	N.A.	N.A.	N.A.	N.A.	0.900	0.850	1.167	1.130	1.080
Uni. Capital	N.A.	N.A.	N.A.	N.A.	N.A.	0.780	0.780	0.815	0.918	0.910

N.A.: It does not apply since the Administrator has not been created or it has merged.

\* In October 2001, Capital AFAP and Comercial AFAP merged and became Afinidad AFAP. The same year, Santander AFAP and Unión AFAP merged and became Unión Capital AFAP. AFAPs estimated averages for the time before mergers take into account commission levels from January to September 2001. In the case of the AFAPs created after the mergers, the October-September 2001 period is used.

Source: Own computation based on BCU Quarterly Bulletins

