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Africa

Nigeria Revises 2014 Pension Reform Provisions

Since mid-2018, Nigeria's National Pension Commission (PenCom) has introduced a series of changes to the Pension Reform Act, 2014. The 2014 law replaced the 2004 Pension Reform Act, which created a system of mandatory individual accounts called the Contributory Pension Scheme (CPS). Although the 2014 law retained the overall framework of the previous law—including retirement savings accounts (RSAs) financed by shared employer-employee tax-free contributions and managed by employee-selected pension fund administrators (PFAs)—it increased contribution rates, broadened the definition of covered earnings, made coverage voluntary for employees of certain small businesses and self-employed persons, and strengthened PenCom's regulatory powers. Recent changes to the CPS include (chronologically):

- *Multi-fund investment structure:* In July 2018, PenCom published new investment guidelines that require each PFA to offer four types of funds with varying risk levels and age requirements, replacing the one-size-fits-all framework for all participants in a single PFA. The four new fund types are: Fund One—20 percent to 75 percent of portfolio assets can be held in variable-income investments (whose prices fluctuate daily) and is only available upon request to participants younger than age 50; Fund Two—10 percent to 55 percent of portfolio assets can be held in variable-income investments and is the default for active participants younger than age 50; Fund Three—5 percent to 20 percent of portfolio assets can be held in variable-income investments and is the default for active participants aged 50 or older; and Fund Four—0 percent to 10 percent of portfolio assets can be held in variable-income investments and is for retirees aged 50 or older. Participants can switch funds once a year after receiving information about the risks and benefits of each fund from their PFAs.

- *Informal-sector coverage:* In September 2018, PenCom issued guidelines to promote a Micro Pension Plan that targets workers in the informal sector, with a potential to mobilize around 12 million participants within 5 years and generate an estimated 3 trillion naira (US\$8.4 billion) in retirement savings. (Many details of the new program have yet to be finalized.)
- *Voluntary contributions:* In October 2018, PenCom established uniform rules for voluntary contributions (VCs) that redefined the eligibility conditions for private-sector employees (including those mandated to contribute to RSAs and employees covered by non-PFA plans closed after the 2014 reform), capped VCs at one-third of an employee's monthly salary, reaffirmed that employers cannot make VCs, and required PFAs to maintain separate VC records (one for retirement and one restricting in-service withdrawals to prevent the use of VCs to avoid income tax). Previously, there were no explicit guidelines for VCs under the CPS even though the 2014 reform permitted them.
- *Investment rules:* In February 2019, PenCom introduced "Regulation on Investment of Pension Fund Assets," which provides uniform rules and standards for the investment of CPS assets. Although the 2014 law allows CPS assets to be invested in corporate securities and government debt, asset diversification has been slow, with roughly 70 percent of assets invested in federal government securities.

The CPS is mandatory for federal employees, certain state and local government employees, and private-sector employees working in firms with at least 15 employees. Voluntary coverage is available for private-sector employees working in firms with up to two employees. As of the end of November 2018, the program had approximately 8.1 million participants (out of a labor force estimated at nearly 70 million persons) and around 8.5 trillion naira (US\$23.7 billion) in assets under management, including 6.5 trillion naira (US\$18.1 billion) in RSA funds and the remainder in pre-2014 pension funds (now closed to new entrants).

Sources: "What Is the Multi-Fund Structure," ARM Pension; "Nigeria," *International Update*, U.S. Social Security

Administration, August 2014; “Nigeria: Changes in 2014 Pension Reform Act Increase Need for Preparation and Communication,” *Global News Briefs*, Willis Towers Watson, August 27, 2014; *Social Security Programs Throughout the World: Africa 2017*, U.S. Social Security Administration, September 2017; “PenCom to Commence Multi Fund Investment Structure in July,” *Vanguard*, May 7, 2018; “PenCom Explains Circular on Voluntary Contributions,” *Today*, August 9, 2018; “Guidelines for Micro Pension Plan,” National Pension Commission, September 14, 2018; “Federal Government to Implement Micro-pension Guidelines from 2019,” *Today*, September 27, 2018; “PenCom to Enroll Additional 30m Nigerians in 5yrs,” *Vanguard*, December 21, 2018; “Nigeria: New Voluntary Pension Contribution Guidelines Establish Uniform Rules, Clarify Previous Reforms,” *Global News Briefs*, Willis Towers Watson, January 16, 2019; “Deepening The Nigerian Capital Market Amidst Global Turmoil; Pension Funds As A Vital Home-Grown Recipe,” *Mondaq*, March 11, 2019.

The Americas

Mexico Introduces Universal Old-Age Pension Program

On January 13, Mexico’s government introduced a new universal pension program (Programa Pensión para el Bienestar de las Personas Adultas Mayores) for individuals aged 68 or older (aged 65 or older for indigenous persons). The program replaces a social assistance program (Programa Pensión para Adultos Mayores) for individuals aged 65 or older not receiving a contributory (social insurance or individual account) pension or a Prospera cash grant greater than 1,092 pesos (US\$56.52) a month. (The Prospera cash grant is a family allowance benefit paid to certain needy residents of Mexico.) Individuals aged 65 to 67 who were receiving the social assistance pension as of December 2018 will automatically receive the new universal pension. According to the government, the new program aims to reduce poverty in the country; an estimated 40 percent of people aged 65 or older are poor, with 629,000 living in extreme poverty. The program benefits around 8.5 million people by expanding coverage (through the removal of a means test) and increasing the level of benefits compared with the previous social assistance program.

Under the new program, 2,550 pesos (US\$131.98) is paid every two months to an eligible individual regardless of his or her income or assets. (Under the social assistance program, 1,160 pesos [US\$60.04] was paid every two months.) Benefits are paid to bank cards (Tarjetas del Bienestar) that can be used at bank branches throughout the country. The program is financed through general revenue; the government

allocated 100 billion pesos (US\$5.2 billion) for the program in its 2019 budget.

Mexico’s public pension system consists of a social insurance program, mandatory individual accounts, and the universal pension program. The social insurance and mandatory individual account programs cover private-sector employees and cooperative members. At retirement or in case of disability, private-sector employees covered by the social insurance program before July 1, 1997, can choose to receive benefits from either the social insurance or mandatory individual account program. (The government receives the account balances and pays benefits for workers who opt for social insurance benefits.) The social insurance old-age pension is paid at age 65 with at least 500 weeks of contributions; the mandatory individual account old-age pension is paid at age 65 with at least 1,250 weeks of contributions.

Sources: *Social Security Programs Throughout the World: The Americas, 2017*, U.S. Social Security Administration, March 2018; “Pensión a Adultos Mayores Será Derecho Universal y Constitucional: Presidente AMLO,” January 13, 2019; Secretaría de Bienestar, Comunicado No. 011, January 13, 2019; “Lo Que Debes Saber Sobre la Nueva Pensión para Adultos Mayores del Gobierno de AMLO,” Reporte Indigo, January 14, 2019; “Programa para el Bienestar de las Personas Adultas Mayores,” Secretaría de Bienestar, February 11, 2019.

Nicaragua Implements Social Security Reform Package

On February 1, Nicaragua’s government implemented a social security reform package that significantly increases contributions and lowers benefits under the country’s social insurance program. The government approved the reform package on January 31 after first introducing it on April 18, 2018, and then withdrawing it 4 days later due to widespread popular resistance. The government contends that the reforms are needed to address the social insurance program’s large and growing deficit. According to the Central Bank of Nicaragua, the program’s deficit from January through November 2018 was 2.9 billion córdobas (US\$87.2 million), which was around 56 percent higher than the deficit for the same period in 2017 (1.8 billion córdobas [US\$55.8 million]). Opponents of the reform package, including many businesses and civil society organizations, have argued that the reforms will further weaken Nicaragua’s struggling economy. The International Monetary Fund estimates that Nicaragua’s economy, as measured by its gross domestic product, contracted by 4 percent in 2018.

The key provisions of the reform package include:

- *Higher contribution rates:* The employee contribution rate for old-age, survivor, and disability benefits has increased from 4 percent of monthly covered earnings to 4.75 percent. In addition, the employer contribution rate has increased from 10 percent of monthly covered payroll to 12.5 percent (with less than 50 employees) or 13.5 percent (with at least 50 employees). The contribution rates for other social insurance benefits (sickness and maternity benefits, work injury benefits, and war victims' benefits) remain unchanged.
- *No earnings ceiling:* The reform package eliminated the earnings ceiling for calculating contributions. Previously, the maximum monthly earnings used to calculate contributions were 96,841 córdobas (US\$2,934.58).
- *A new earnings base:* Under the amended rules, the earnings used to calculate old-age and disability pensions are the insured's average monthly earnings in the last 375 weeks of contributions. Previously, the earnings base was the insured's average monthly earnings in the last 250 weeks of contributions or in the 250 weeks before the last 250 weeks of contributions, whichever was greater. (Under certain conditions, the average monthly earnings could be based on as few as 150 weeks of contributions.)
- *A less generous pension formula:* For new old-age and disability pensions, the monthly benefit is now 20 percent of the insured's average monthly earnings plus 1 percent for every 52 weeks of contributions exceeding 150 weeks. Previously, the monthly benefit was 37 percent of the insured's average monthly earnings plus 1.15 percent for every 52 weeks of contributions exceeding 150 weeks (for persons with average earnings more than twice the minimum wage), or 45 percent of the insured's average monthly earnings plus 1.591 percent for every 52 weeks of contributions exceeding 150 weeks (for persons with average earnings up to twice the minimum wage). The formula change is expected to reduce benefit amounts for most new pensioners by 30 to 40 percent.
- *A lower maximum old-age pension:* The maximum monthly old-age pension is now 70 percent of the insured's average monthly earnings. Previously, the maximum was 80 percent (for persons with average earnings more than twice the minimum wage) or 100 percent (for persons with average

earnings up to twice the minimum wage) of average monthly earnings.

- *Reduced supplemental benefits:* The pension supplement paid for a dependent wife or disabled husband decreased from 15 percent of the old-age or disability pension to 13.5 percent, and the pension supplement paid for each dependent child younger than age 15 (age 21 if a student; no age limit if disabled) decreased from 10 percent to 9 percent.

Nicaragua's social insurance program covers employed persons, certain farmers, professional association members, certain clergy members, and cooperative members. The program offers voluntary coverage to self-employed persons and those who previously had mandatory coverage. To qualify for a full old-age pension under the program, a person must have reached age 60 and have at least 750 weeks of contributions. A partial pension is paid to persons who have reached the normal retirement age and have at least 250 weeks but less than 750 weeks of contributions.

Sources: Decreto No. 975, 1982; Decreto No. 37, 2013; *Social Security Programs Throughout the World: The Americas, 2017*, U.S. Social Security Administration, March 2018; "Daniel Ortega revoca la reforma a la seguridad social por las protestas," *New York Times*, April 22, 2018; World Economic Outlook Database, International Monetary Fund, October 2018; Resoluciones 1/325 y 2/325, Instituto Nicaragüense de Seguridad Social, January 28, 2019; "Señalan que cambios a seguridad social en Nicaragua crea 'pensiones de miseria,'" *El Diario de Hoy*, January 29, 2019; "Déficit del INSS llega a C\$2,800 millones," *El Nuevo Diario*, February 9, 2019; "In Nicaragua, Steep Pension Cuts, Tax Increases Could Plunge Country into Recession," NBC News, February 11, 2019.

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