



Revista de Estudiantes de Economía / Volumen 1 / Número 3 / Enero-diciembre 2019

# INTERCAMBIO

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SOCIAL Y LA ESTABILIDAD  
FINANCIERA: EL SISTEMA  
PENSIONAL COLOMBIANO**

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E-ISSN 2619-6131

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DE COLOMBIA

# STRUGGLING BETWEEN SOCIAL SECURITY AND FINANCIAL STABILITY: THE COLOMBIAN PENSIONAL SYSTEM\*

## LA PUJA ENTRE LA SEGURIDAD SOCIAL Y LA ESTABILIDAD FINANCIERA: EL SISTEMA PENSIONAL COLOMBIANO

**Ricardo Alejandro Peña Pinzón\*\***

### Abstract

The Colombian Pensional System (CPS) is failing to protect the elderly population of the country despite having a large stake in the governmental budget. In face of this crisis the CPS is undergoing a process of transformation towards a neoliberal model, in which the individual becomes the sole responsible of his retirement and the private pension funds displace the public entity Colpensiones. Certain financial organizations like Asofondos and ANIF support reforms aiming to these objectives based on a



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\* **Received date:** February 23<sup>rd</sup>, 2019 | **acceptance date:** June 8<sup>th</sup>, 2019 | **modification date:** July 26<sup>th</sup>, 2019. This paper was conceived for the class “History of Economic thought” with the professor Beethoven Herrera. I am grateful for his invitation to challenge us to face the blank sheet.

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speech that favors financial sustainability over social security. This paper will attempt to show how the neoliberal speech shapes and defends this way of action.

**Keywords:** colombian pensional system, social security, Colpensiones, AFP, pensional reform, neoliberal pensional model; JEL: H440, J140, I380.

## Resumen

El Sistema Pensional Colombiano (SPC) falla en proteger a la población mayor del país a pesar de tener una participación considerable en el Presupuesto General de la Nación. De cara a esta crisis, el SPC se encuentra en un proceso de transformación hacia un modelo neoliberal, donde el individuo es el único responsable de su retiro y los fondos privados de pensiones desplazan a la entidad estatal Colpensiones. Ciertas organizaciones financieras como Asofondos y ANIF apoyan reformas encaminadas a estos objetivos basadas en un discurso que favorece la sostenibilidad financiera sobre la seguridad social. Este artículo muestra cómo el discurso neoliberal modela y defiende este proceso.

**Palabras clave:** sistema pensional colombiano, seguridad social, Colpensiones, AFP, reforma pensional, modelo pensional neoliberal; JEL: H440, J140, I380.

## INTRODUCTION: THE COEXISTENCE OF TWO ANTAGONIC REGIMES

Today the country has a parallel model in which two non-complementary regimes coexist and compete for the contributors. On one hand, the state backs the defined-benefit scheme (Régimen de Prima Media or RPM) and on the other, four private Pension Funds Administrators (Administradores de Fondos de Pensiones or AFP) hold the savings for the individual saving regime (Régimen de ahorro individual con solidaridad or RAIS). The entrance of the private sector to the Pensional system was permitted by the law 100 of 1993 and currently the neoliberal view backed by the financial sector intends to deepen this participation.

Colombians have the right to choose between the public and private options, as well as the right to be transferred from one regime to the other. In August 2018, the four private

AFP's had 15.3 million affiliates (ASOFONDOS, 2018). The management report of Colpensiones for 2017 showed that the number of affiliates was 6,527,193 and that just in that year 141,583 transfers from the RAIS to the RPM were made (COLPENSIONES, 2017, p. 332).

The RPM is a regime based on intergenerational solidarity. All affiliates contribute to a common fund from which the monthly payments of the retirees come. The State is the direct responsible of this fund, therefore the contributors and pensioners have a security over it. The amount of the pension is previously defined by the law (thus the name defined-benefit scheme) and is calculated as the media of the salary from the last 10 years of contributions considering the number of minimum wages the contributor receives. In Colombia the gross-replacement ratio (the percentual relation between the last salary received and the amount of the pension) ascends to 70.8% (OECD, IDB & World Bank Group, 2015). Since 2005 the requirements of age and weeks of contribution are: 62 years for men and 57 for women, in addition to 1,300 working weeks for both genders.

The RAIS is inspired in the Chilean model, which constitutes the neoliberal role model for countries in the region. Here private pension funds (AFP) administrate the pensional savings of contributors. Each contributor is responsible of his own saving, there is no common fund but rather individual ones: the Programmed Retirement Funds, which belong to the contributor. The pension ultimately depends on the contributions from the worker and employer and their financial performance. In order to acquire a pension, the contributor must reach a certain amount (in 2013, for a 62 year old man to acquire the right of a minimum pension he must had on average \$153,565,721 COP in his account, \$124,493,490 COP for a woman (Rodríguez, 2017).

In this regime the affiliate is the one who “constructs” his pension and must reach a certain saving by the time he reaches the age if he wants to receive a pension that is not fixed by the law (with the condition that it must be higher than the minimum wage). The contributions are not necessarily defined neither. There is a subsidy from the Government for those who may not reach the required minimum. Furthermore, the AFP must guarantee a minimum financial return, fixed by the government. In case this rate is not achieved, the AFP must answer with its own resources.

The CPS requires an urgent restructuring because of its high expenditure, and limited funding and coverage. The media has even portrayed it as a latent atomic bomb (Revista Semana, 2017). Not only it is expensive but also fails to fulfil its mission: be a security for the elderly population in the country.

To confront these issues, two opposed courses of action have been proposed. The Neoliberal Solution argues that privatization is the most efficient way to counter the excessive public spending, plus it gives dynamism to the economy by better transforming the pensional saving into investment. The defendants of this view are ANIF (Asociación Nacional de Instituciones Financieras), Fedesarrollo, Asofondos, and the OECD among others. A second way of action has proposed to protect and reinforce the public system, impeding any further participation of the private AFPs (Rodríguez, 2017; ILO, 2018).

### **BACKGROUND: THE COLOMBIAN PENSIONAL EXPERIENCE**

Only until 1945 a modern system of social security was formed in the country. Formerly just certain and limited sectors were benefited with pensions: members of the judicial system and personnel of the national postal and telegraphic service among others. With the law 6 of 1945 employers' obligations were instituted, and with the law 90 of 1945 the Bismarckian model of social security was established in Colombia following the European example, in which the quotas were contingent to income. At first, only those sectors with political influence were subject of this coverage: the military, miners, railroad, ports, and petroleum workers. Thus, leaving independent and rural workers unprotected (Rodríguez, 2017).

In this period CAJANAL and the ICSS (Instituto Colombiano de Seguridad Social) are established. By the side of these mayor public entities several other social security funds were founded by department, city, and economic sector. In the 60's and 70's these institutes expanded their coverage of the population; the ICSS was able to reach a coverage of 37.5% (Leal & Rangel, 2007).

On the second lustrum of the 80's several laws and decrees were issued to unify the system, which was heterogeneous regarding retirement conditions between the many

social protection funds present in the country. In the 80's and early 90's Latin America suffered from its so called "lost decade", in which debt was high, economic growth stagnant and the ISI (Industrialization as Substitution to Imports) model unsuccessful. In this context the neoliberal speech shaped reforms all around the continent. In Colombia this process is conducted by president Gaviria's government (1990 to 1994) through its development plan titled *La Revolución Pacífica* (the Pacific Revolution). In this plan the pensional system was accused of being limited, inequal, and extremely expensive (Rodríguez, 2017).

This new vision of social security and particularly of pensional security is expressed in the Article 48 of the Colombian Constitution:

Social Security is a mandatory public service that will be delivered under the administration, coordination, and control of the State, subject to the principles of efficiency, universality, and solidarity within the limits established by law. (...)

Social Security may be provided by public or private entities, in accordance with the law. (...)

The State will guarantee the rights resulting from the Pensions Systems, its financial sustainability, that it will respect vested rights in accordance with the law and assume the payment of the pension debt for which it is responsible according to the law. (Colombian Constitution, 1991)

The country's constitution and the law 100 of 1993 established that private entities could as well manage pensional savings, and the State will in every case act as regulator and supervisor. It also highlighted the importance of financial sustainability, recognizing and respecting the vested rights of past regimes. This last point implies that if any reform must be undertaken to ameliorate financially the CPS, it can only act on those citizens who have not yet acquired a pension.

It also established a maximum of 25 monthly minimum wages for any pension that came into existence at the expense of public resources and a minimum of 1, as well as a limit of 13 monthly payments a year. The same Article stated that no other exempted regime could come into existence. (Colombian Constitution, 1991).

In 2003, 2005, and 2015 other important decrees were instituted. Mostly aimed to strengthen the participation of the AFP in the sector and to restrain public spending. These will be discussed hereafter.

## MAJOR CHALLENGES

The current flaws of the system are: limited coverage of retirees and contributors, inequity, and high governmental expenditure.

### **Limited coverage**

In April 2016, the total number of retirees covered with a pension by the RPM was 1,667,672. The RAIS covered 96,298 and the other exempted regimes 327,965. In total, by 2016 Colombia had 2,053,523 pensioners. These are the ones that achieved a pension. Of the persons that reached the age and were affiliated to these regimes, 66% in the RPM achieved a pension and only 36% in the RAIS did, the resting percentage was not able to fulfill the requirements (Contraloría General de la República, 2016, p. 42). According to estimates of the DANE (Departamento Nacional Administrativo de Estadística), in 2015 the Colombian population over 60 years old was over 5 million citizens approximately (DANE, 2007). This means that the coverage of the system reaches roughly one third of the population in retirement age.

### **Limited percentage of contributors and informality**

The number of contributors is directly linked to the formalization of work. By law, every citizen under a formal contract must render 16% of his salary to the fund, 12% is given directly by the enterprise and 4% by the worker. An independent worker must answer for the monthly quota by himself. In Colombia there are 22.7 million workers, of which only 7.8 million are in formality, thus contributing to funds (Observatorio laboral Universidad del Rosario, 2017).

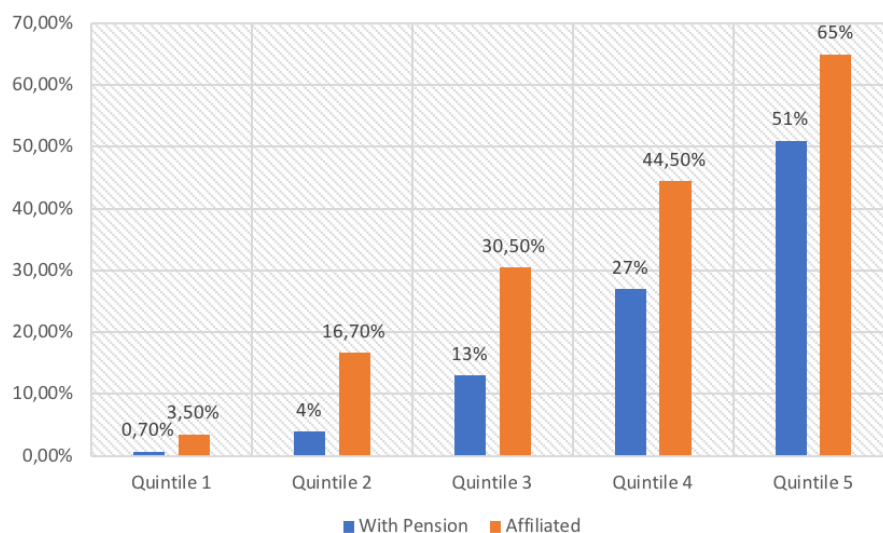
Furthermore, according to the GEIH (Gran encuesta integrada de hogares) published by the DANE, in the first two quarters of 2018 the unemployment rate reached 9.5%. The GEIH also showed that for the 13 biggest cities and metropolitan

areas in Colombia between May and July of 2018, informality reached 47%. The percentage of workers who contributed to their pensional obligations in these cities reached 50.7% (DANE, 2018)

### **Inequity**

The CPS is failing to close the inequality gap; in Colombia the Gini coefficient reaches 0.508. In 2016 only 0.7% of the population in retirement age belonging to the first quintile of income (those with the lowest income) was secured by a pension, while that number in the fifth quintile (those with the highest income) represents 51%. Those in the quintile one of income are affiliated in a 3.5% to a pension fund while in quintile five 65% are (Contraloría General de la República, 2016). If the social drive of the Pensional system is to guarantee an economic security for the third age, then it is only partially working for accommodated classes. The most economically vulnerable are the least covered by the system.

**FIGURE 1: Percentage of Pensioners (over Population in Retirement Age) and Percentage of Contributors (over Population in Working Age) by Quintiles of Income. Quintile 1 Represents those with the Lowest Income and the Quintile 5 those with the Highest**



Source: Own elaboration based on data from the Contraloría General de la República (2016).



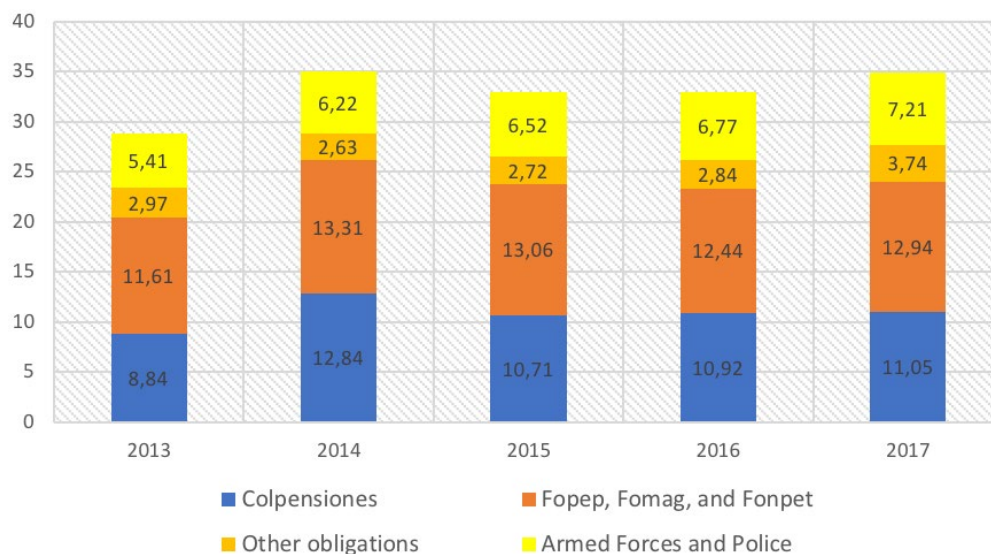
## Financing

The public pensional expenditure represents a large and inflexible proportion of the national budget because it is a constitutional obligation of the government to answer for acquired pensions in the public regimens, even if those funds are not able to make the monthly payments by themselves.

The governmental budget for 2017 was 229.19 trillion Colombian pesos (around 74 billion dollars), of which 35.64 trillion pesos were destined to pensional obligations (15.5%). This amount is greater than that of the payroll of government employees (28.04 trillion pesos). Of those destined 35.64 trillion pesos, 34.94 were expended in 2017 in: Colpensiones (the principal pensional public entity), Fonpet, Fopep, and Fomag (other minor and restricted public pensional entities), the Armed Forces and Police's exempted regimes, and other obligations (Contraloría General de la República, 2017).

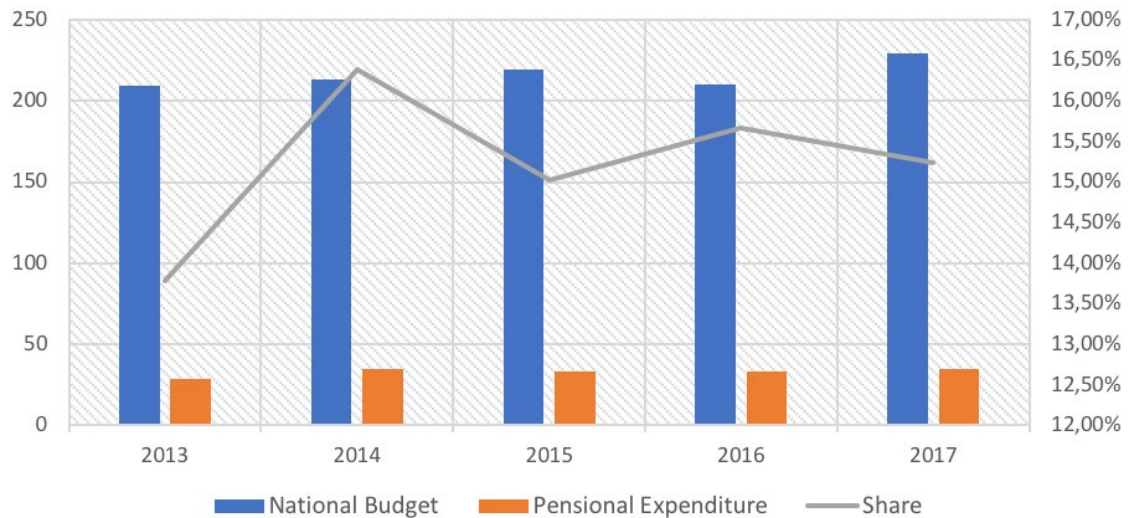
The evolution of this expenditure is shown on Figures 2, 3, and 4. The public pensional expenditure has grown more relative to GDP than to the National Budget because the latter increased more than the former in the depicted years.

**FIGURE 2: Public Pensional Expenditure from 2013 to 2017 (in Trillion Pesos)**



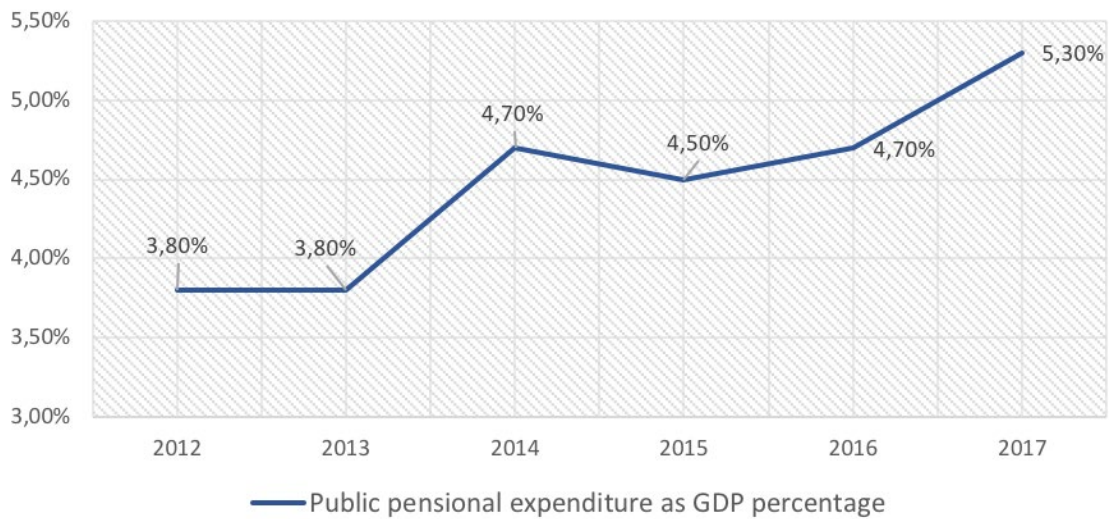
Source: Own elaboration based on data from the Contraloría General de la República (2017).

**FIGURE 3: Public Pensional Expenditure and Government Budget, in Relative and Absolute Terms 2013-2017 (Trillion Pesos and Percentage)**



Source: Own elaboration based on data from the Contraloría General de la República (2017).

**FIGURE 4: Public Pensional Expenditure as GDP Percentage**



Source: Own elaboration based on data from the Contraloría General de la República (2017).

Furthermore, Colombia faces a structural characteristic that inflicts pressure into the system. The rate of children per woman is moving below the replacement level (two children per woman) while life expectancy is augmenting. This inflicts pressure

into the system because it will not be able to rely on young generations to support the elder ones in the same way it has done in the past. According to the last population census made in 2018, 22.5% of the population is 0 to 14 years old, 68.3% is 15 to 64 years old, and 9.2% is 65 or older (DANE, 2018). The country is having a transition in its demographic structure: from a pyramidal structure to a diamond one.

Nonetheless Colombia is still a young country, prove of that is its demographic bonus. In this situation the population in working age (in Colombia it starts at 15 and ends at 64) is greater than the dependent population, those who are too young or too old to work. Colombia's demographic bonus could end in two decades; its potential for economic growth could be wasted if not enough young workers contribute to their retirement saving (Urdinola, 2018, p. 1) .

## NEOLIBERAL ANSWER

### **ANIF: Withering the RPM and flexibility for the labor market**

In 2017 the Center of Economic Studies of the ANIF issued a report titled “Elementos para una reforma estructural pensional (REP)” (Elements for a Structural Pensional Reform), which emphasized the importance of a pensional reform to be performed as soon as possible in the governmental period of 2018 - 2022.

ANIF intended to find a sustainable solution for two mayor challenges. The first one is the Social Bomb. It refers to the fact that only one third of the elderly population in the country is protected by the pensional system and informality reaches half of the population. This leaves most of the elderly population at the verge of indigence. Currently Colombia is under this situation; for it to be solved the coverage needs to be augmented to at least the Latin American average, 64%. Nonetheless, expanding the coverage with the current scheme, namely the coexistence of a public and private regime, will have heavy repercussions on the State's finances, what ANIF defines as a Fiscal Bomb (ANIF, 2017, p. 10).

The sole possibility to tackle the Social Bomb without escalating the Fiscal Bomb is a structural reform to the CPS coupled with reforms to promote formality. ANIF blames the large informality in the region on the high minimum legal wage and

the high non-salary costs of payroll (mandatory contributions to the health system, Servicio nacional de aprendizaje (SENA), and Instituto colombiano de bienestar familiar (ICBF)) which are defined as *Parafiscales*. These costs ascend to 9% of the payroll and are mandatory for the enterprise who affiliates workers through a labor contract.

Solutions to this matter propose the reduction of the minimum wage, making it coherent with the financial reality of the moment, so that enterprises could augment formal contracts and therefore dynamize the economy. Santiago Montenegro, president of Asofondos has stated that creating a different minimum wage for each region in the country could also contribute to the matter (Chaves, 2017). The flexibilization of the labor market could also dynamize the economy, decrease unemployment, and reduce informality by fomenting the continuous hiring by enterprises.

Aiming to tackle the Social Bomb, ANIF recommends the expansion of governmental assistance programs like *Colombia Mayor* and *BEPS*. *Colombia Mayor* aims to expand the protection of economically vulnerable citizens in the third age by granting subsidies that do not reach the minimum wage. Although its budget is lesser than that of Colpensiones, it attends a population of 1.5 million people. ANIF proposes to increase its budget from 0.2% of the GDP of 2016 to at least 0.4%.

BEP stands for *Beneficio económico periódico* and is a program whose philosophy is “Save what you can when you can”. It is administrated by Colpensiones, but in it the affiliate contributes unfixed sums when he is able. Afterwards the affiliate is granted a lifelong payment, based on 20% of his contributions, which is granted by the State.

The former are side solutions presented by ANIF, but the cornerstone of the proposal is the withering of the RPM. The document states that these regimes around the globe have failed to manage the drastic demographic changes. People will have to save more in their productive years for a longer old age. This will not imply to close Colpensiones, for it must answer to its retirees and close-to-retire affiliates, but rather to prohibit new affiliations. According to ANIF, Colpensiones has a regressive scheme in which the high pensions of wealthy citizens are paid by poor affiliates and the Colombian contributors in general through the public budget transferences to the entity (ANIF, 2017).

This view also sustains that transferences from the RAIS to the RPM must be put to a halt. It states that the transferees are affiliates searching for the public subsidies with a saving that cannot compensate their future pension. The management report of Colpensiones for 2017 showed that just in that year 141,583 transfers from the RAIS to the RPM were made (COLPENSIONES, 2017).

Other mayor structural changes proposed by ANIF are:

- Limiting the minimum pension from the current 100% of minimum wage to 75% of it. Those who contribute with 16% of a minimum wage or less are subject of a whole minimum wage pension, which means they are being heavily subsidized with public resources. Being this the most common pension, it is necessary to regulate it. ANIF has calculated that this initiative could lower the pensional present net value (PNV) in the horizon 2017-2050 by 3.5 percentual points.
- Reducing the replacement ratio, which is generous and expensive for the public finance. This rate is the percentual relation between the amount of the pension and the last salary received. In Colombia it reaches around 70.8% in the RPM, higher than in Chile, Brazil and Mexico, economies stronger than the Colombian (OECD, IDB & World Bank Group, 2015). ANIF recommends it to be lowered 20 percentual points, leaving it in around 50%. The association has calculated that this proposal could lower the pensional PNV in the horizon 2017-2050 by 6.7 percentual points.
- Augmenting the retirement age. According to the OECD and the IDB, ANIF recommends the augmentation of the retirement age in men and women from the actual 62 and 57 years respectively to 67 and 62. The model proposed for this is the so called *Pacto de Toledo*. Following the Spanish experience, retirement ages would be incremented gradually by 1 year until reaching the 5 years increase. These changes would not apply to affiliates who are within 10 years of acquiring their pension. ANIF states that this proposal would decrease the pensional PNV in the horizon 2017-2050 by 7.4 percentual points (ANIF, 2017).

- Reduction of the substitute pension to the survivor. When the pensioner dies, in certain cases his pension is transferred to someone who was economically dependent of him, viz. his or her spouse or husband or children. ANIF proposes that if the pensioner had no children younger than 25, this transference must not reach a 100% but rather a 75% (ANIF, 2017).
- Recalculation of the IBL *Ingreso Base de Liquidación*. Through this method the pension of the affiliate is calculated over his last 10 years of work, this was established by law 797 of 2003. In theory the salary augments through time, so calculating the final pension over those last 10 years creates an inflated amount that should be corrected. ANIF proposed to calculate the final pension considering the whole working span of the affiliate (ANIF, 2017).

Deactivating the Social Bomb (increasing the coverage of the CPS to at least a 64% of the population) will activate the Fiscal Bomb. ANIF calculates that in this scenario this Structural Pensional Reform could decrease the pensional PNV in the horizon 2017-2050 by 28.6 percentual points. The document states that it is imperative to apply the reform as early as possible, because due to the constitutional respect to vested rights and to affiliates who are near their pension, the effects of it will impact the CPS in 15 years (ANIF, 2017).

### **Asofondos: The Strengthening of the RAIS**

Asofondos (*Asociación colombiana de administradoras de fondos de pensiones y cesantías*) is the non-profit organization created in 1994 that represents the private AFPs. Today Colombia has four of them: Colfondos, Old Mutual, Porvenir, and Protección.

This organization has addressed the flaws of the CPS pointing that the public regime promotes inequality and is financially unsustainable. In April 2017, the organization stated five points that a new pensional reform should have (Chaves, 2017). These are less structural than the proposal of the ANIF and tend to reinforce the current private model. Within these are:

1. Focus the subsidies that the RPM grants.
2. Dynamize the market for life long annuities.
3. Extend de access to the Minimum Pension Guarantee Fund and permit the minimum pension to be calculated over market prices.
4. Make young workers enter the higher risk portfolio by default.
5. Regulate the investment scheme for the Programmed Retirement Fund.

For Asofondos, the high pensions that affiliates of the RPM and exempted regimes receive are a cause of inequity, because persons in economic vulnerability are less likely to achieve this kind of social protection for their old age. They state that it constitutes an absurdity that those with the largest pensions are citizens of the upper classes which at the end are benefitted with public subsidies. Organizations like ANIF have characterized this situation as Hood-Robin; the system makes poor Colombians pay for the pensions of the rich (Revista Semana, 2017). In a study published by the CEDE (*Centro de estudios sobre desarrollo económico*, Andes University) the CPS is responsible for 4.2% of the nation's Gini Coefficient (Nieto, 2014).

This view considers the pensions granted by the public sector as a subsidy because the contributions made by the worker during his working years are too low. The age and the amount contributed are not coherent with the reality of the market and the longer life expectancy of Colombians.

The second point refers to life-long-annuities. These are fixed monthly payments that last through the whole life of the retiree, which differ from the scheme of programmed retirement of an AFP because the latter may not cover the retiree for the rest of his life. Asofondos stated that the AFPs should expand their coverage in this modality but with certain aid. Life-long-annuities cover the risk of a longer life expectancy for the retirees, nonetheless the cost derived from it is assumed by the AFP. This view sustains that the incoherence between the minimum life-long-annuity (minimum pension) based on the minimum wage and the financial reality of the moment must be amended by the state. Therefore, the decree 036 of 2015 instituted that the State should respond for the difference between the increase of the minimum wage over the

inflation in order to ensure a broader access to life-long-annuities for affiliates of the private system. In 2016 10,114 million pesos were assigned to this purpose (Contraloría General de la República, 2016).

The third point is supported on the idea that the current minimum pension is a prejudicial limit for those who are not able to accumulate enough capital in their personal accounts. If the minimum is not reached, the AFP will give back the capital and the individual is not subject to a monthly payment. Given this, many more Colombians could acquire a pension, even if it is smaller, if the minimal pension is fixed according to market value, which expresses the reality of a contributor's saving.

The Minimum Pension Guarantee Fund is an option for those affiliates to an AFP who have not reached the minimum requirements for a pension of one minimum salary. Namely, workers who reach the age (62 for men and 57 for women), that have contributed 1,150 weeks, that have an income under the minimum wage, but have not fulfilled the capital required in their accounts (La República, 2016). In this case they are subject to a minimum pension. This fund is maintained with the monthly contributions of all the affiliates. The monthly quota comprises 16% of the employee's income, within it there is a component of 1.5% that goes to this fund (9.3% of each contribution) (Superintendencia Financiera, 2014). Extending the access to this fund could reduce inequity by favoring affiliates who are economically vulnerable.

The fourth point states that new affiliates should enter the higher risk portfolio by default. By doing this their savings may grow substantially due to higher financial revenues of more profitable (and risky) investments. Through this way risk is faced in a time in which the individual can face it and make a profit of it without jeopardizing his latter pension, for he would have enough time to amend his saving account if those risky investments go wrong.

The fifth point aims at diversifying the different portfolios in which the AFP affiliate's saving can be invested, according to the different risk profiles and life expectancies. The URF (*Unidad de Regulación Financiera*, a dependency of the Ministry of Finance and Public Credit) expressed the need of this kind of reform in the *Documento Técnico*



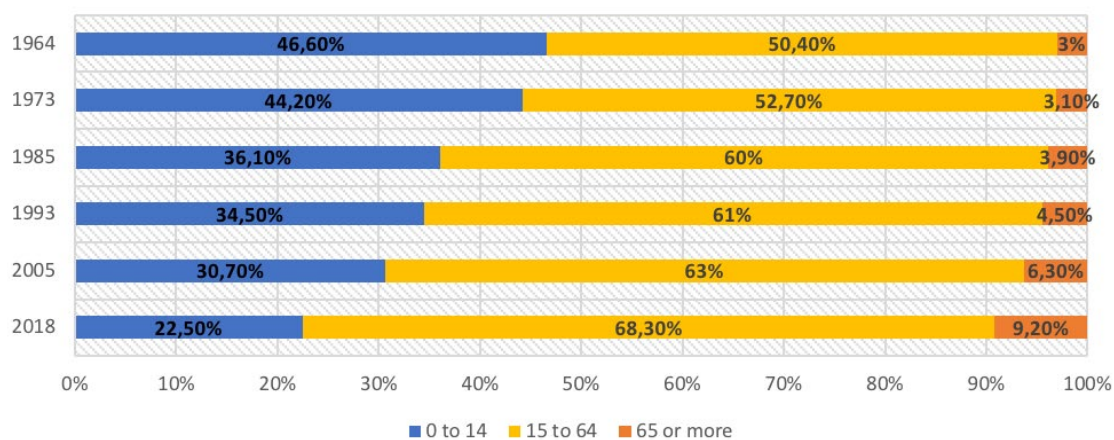
*Régimen de Pensiones de Retiro Programado* (Walteros, Guerrero, & Hernandez, 2017). The document concludes that it could augment the annual profitability by up to 0.8%, from an average 6.4% to 7.2%.

The population affiliated to an AFP is heterogeneous in terms of age, income, risk profile, life expectancy, education, and work stability. Considering these factors in the composition of the investment portfolio could increase the capital of the affiliate and maximize his pension.

### **Intergenerational Solidarity**

The RAIS is not based on intergenerational solidarity as the RPM but rather on individual responsibility. The neoliberal view sustains that this is an important characteristic for the financial sustainability of the model, due especially to the new conditions of the population structure. In the next figure the gross distribution of age groups is depicted throughout more than five decades.

**FIGURE 5: Colombian Population Structure 1964-2018**



Source: Own elaboration with data of DANE (2018).

In the 60's and 70's, the decades in which the public ISS expanded in terms of affiliation, there was a percentage of population below the working age (14 years old or younger) that exceeded the 40%, and just around the 3% surpassed the working age (65 years or older). This meant that the public technocrats had the following security: in the moment pensioners retired there would be a renewed young working force entering the labor market and with their contributions the common fund will find no difficulties in providing their pensions.

The pensioners of the public regime have the constitutional guarantee to receive a pension whether the public funds have enough capital for it or not, the public finance is the one who bears the burden of a non-sustainable regime.

In the new millennia the aging of population accelerated. Not only couples have less children, but Colombians live longer. In 1964 only 3% of the population surpassed the working age while in 2018 this percentage reached 9.3%. Besides, the age group of 14 years old or younger as a percentage of the total has been reduced from 46.6% to 22.5% in the same time span (DANE, 2018). If the basis of the intergenerational solidarity scheme (the public scheme) is a young population then the financial sustainability of it is jeopardize, and within the principle of respect to vested pensional rights, the State is the one responsible of filling the deficit. As it is showed in Figure 4. the public pensional expenditure as a percentage of the GDP has continually grown this decade.

The neoliberal view states that the individual saving regime or RAIS solves this issue by making the pension a responsibility of the contributor, releasing the public finance from the burden of high pensions and the loss of competitiveness they generate for the economy.

## **FINAL REMARKS: SHOULD SOCIAL SECURITY BE MANAGED BY THE MARKET?**

The prime objective of the Pensional System as part of Social Security is to guarantee economic security for the elderly population in the country. Currently the realization of this objective has been unsuccessful. Less than one third of the elderly population has access to a pension, leaving the other two thirds at risk of indigency.

According to SABE, the national study conducted by the Health Ministry on the wellbeing of elderly population, it is a vulnerable sector of society. Of those who work, 60% do it because of need of money, and 58% of those work in informal occupations of low capacitation. Among the population that is 60 years old or older, nearly 30% have no income, and of those who have, almost half receive less than a minimum wage (Ministerio de Salud, 2015).

The income distribution of this population exposes the vulnerability of it. 30.9% must work, 33.1% depend on their family, and just 29.1% receive a monthly pension. The last number is unsettling considering that elderly people in Colombia have worked on average 36.6 years (Ministerio de Salud, 2015).

Furthermore, the global tendency towards reduction of persons per household is visible in Colombia (DANE, 2018). These facts suggest a question, namely: If the majority of the elderly population is not protected by a pension, and in the future they will be less likely to rely on their families, how can they be protected from indigency?

Which actor is responsible for the contention of this social calamity? The State, the market, both? Currently both have proved to be inefficient. Nonetheless, the neoliberal view supported by ANIF and Asofondos states that the failure of the CPS is due to the coexistence of both regimes and the “unfair competition” generated by the RPM. Therefore, to this view it is logical to eliminate or wither the public regime, letting the market represented by the AFPs handle the pensional saving of the country. Nonetheless, this view places fiscal stability over social security, and the final cost is assumed by the population.

Certainly, if the individual is the sole responsible of his pensional saving then the government would be able to reduce its pensional expenditure. Nonetheless, the decree 036 of 2015 previously discussed poses a question to the supposed sustainability of the model. If private pensional administration is efficient, why is the state forced to transfer more than 10 billion pesos annually to private AFPs?

This former critic could easily be understood if the saving of affiliates to AFPs represented a security for the elderly age. However, 68% of affiliates to the RAIS that reached their retirement age did not achieved a pension and their savings were

returned. And of those who achieved it in the RAIS probably will not be covered for life, because the great majority of their pensions are not life-long-annuities (Rodríguez, 2017). If the retiree lives longer than 20 to 25 years after his retirement, he or she will be unprotected.

Moreover, contrary to the RPM, 16% of the salary contributed to the RAIS is not entirely capitalized in the affiliate's personal fund. Only 11.5% is capitalized in the affiliate's account, 1.5% goes to the Minimum Pension Guarantee Fund, and the other 3% goes to the administration fee of the AFP and a life and disability insurance (PORVENIR, 2018).

The RAIS is a young regime, only 24 years old. Therefore, it has the advantage of receiving contributions without actually pensioning a considerable percentage of its affiliates. The first pensioners of the AFPs had a replacement ratio of only 25% (Rodríguez, 2017). Thus, it is natural that the number of transferences from the RAIS to the RPM is continuously rising. As a solution to this prejudicial situation for the AFPs, the withering of the RPM and the halt of transferences has been proposed. This is a mechanism to break intergenerational solidarity and to avoid workers leaving an inconvenient regime in advantage to the AFPs.

In September 2018 Asofondos stated that the savings of their contributors reached 234 trillion pesos in July, with a financial return of 12 trillion pesos. Their total number of affiliates rose to 15.2 million, 380 thousand entered in just the first two quarters of 2018 (ASOFONDOS, 2018). Through these figures Asofondos intends to justify the financial sustainability of the private model and the "imperative" reform to the CPS.

This data can be misleading if analyzed out of context. It is natural that the four AFPs can achieve this massive capital, similar to the annual general budget of the nation, if their contributors amount to almost 70% of the affiliated national workforce. Their prime condition is due to the youth of the model. On average for the first two quarters of 2018, for every pensioner in an AFP, the private fund had more than 150 contributors (15.3 million contributors and only 0.1 million pensioners) (ASOFONDOS, 2018). On the contrary, Colpensiones responds for the pension of a much greater number of retirees (1.7 million), with pensions larger than those of their private

counterpart, with less than half of their active contributors. In 2017, for every pensioner, Colpensiones had just 3.8 contributors (6.5 million contributors and 1.7 million pensioners) (COLPENSIONES, 2017).

In opposition to this type of neo-liberal reform, professor Oscar Rodríguez Salazar of the National University of Colombia and Externado University, sustains in his article *El rentismo financiero y la vulnerabilidad social: el caso de las pensiones de Colombia* (2017, pp. 227-295) that the pensional reform the country needs should be directed in the opposite direction. If all that pensional saving was directed to Colpensiones, then the system could be auto sustainable or at least close to being (due to intergenerational solidarity) and in addition affiliates will be more likely pensioned and have higher pensions.

Moreover, the idea that the pensional saving is more productive if administrated by the AFPs and that it comprises a vital factor for economic growth can be contested. In 2016, 36% of the AFPs' investment portfolio was directed to finance internal public debt and 30.9% in shares and titles abroad (Rodríguez, 2017, p. 290). Investment in national productive activities is not the principal focus of these funds.

The proposals stated by ANIF and Asofondos intend to transfer the risk to the individual: the risk of possible low returns due to unproper investments in the market and the risk of unemployment and stationary work. Even if the formal sector in the labor market is expanded by reforms such as those of law 789 of 2000 and the labor reform of 2003, (viz. the permission of outsourcing without recognizing social payments, the usage of service contracts and the reduction of night and dominical working hours remuneration) Colombians would not enjoy the benefits of formalization, namely the security and stability it should grant. The Colombian economist Salomón Kalmanovitz states in his book *Nueva historia económica de Colombia* (2017, p. 246) that formal and informal employment are increasingly similar, due to the increase in outsourcing, temporal hiring, and precarious employment.

The Chilean system could shed light upon the matter. During the military dictatorship of Augusto Pinochet, Chile became the first country in Latin America to implement a predominant private pensional model. Although the AFPs have been considered

to be key in the so called Chilean economic miracle, social unrest has been exposed in 2016 and 2017 through protests and social mobilizations due to the meager pensions of retirees, 79% of which do not surpass the minimum wage (Herrera, 2017).

This trend of social uneasiness is not limited to Chile. In 2018 the International Labor Organization (ILO) issued a report titled “Reversing Pension Privatizations. Rebuilding public pension systems in Eastern Europe and Latin America.” It exposes a tendency in countries who had partially or totally privatized their pensional systems and then reverted them again to the public administration due to social discontent. Between 1981 and 2014, 30 countries admitted privatization in their pensional systems, 14 of them were Latin American: Chile, Peru, Argentina, Colombia, Uruguay, Bolivia, Mexico, Venezuela, El Salvador, Nicaragua, Costa Rica, Ecuador, Dominican Republic, and Panama. 14 were from Eastern Europe and 2 from Africa. By 2018, 18 of those decided to revert partially or totally the privatizations. Most of them took this decision after the crisis of 2008, which exposed the fragility of the system and materialized the risk faced by individuals, many of which saw their retirement savings vanish.

The report demonstrates that contrary to the forecasts of organizations that promoted privatizations, such as: IMF, WB, OECD, USAID, IDB among others, what actually happened was the following: coverage did not increase but rather became stagnant or decreased, the size of pensions decreased, inequity regarding gender and social strata deepened, the risk of market fluctuations was transferred to the public, the costs of private administration grew, and most of that capital did not boost economic growth because it was not directed to productive investments (ILO, 2018).

## **CONCLUSION**

The neoliberal speech backed by national and international organizations such as ANIF, Asofondos, OECD, and IDB favors financial sustainability over social security through the privatization of the model, therefore not solving the vulnerability of the elderly age, the prime objective and constitutional obligation of the CPS. Privatization in the provision of social rights should not exclude them from the political debate.

When a social right is supplied by a private organization it must stay a social right, because contrary to an ordinary merchandise, denying it to the public is a violation of their rights (Giraldo, 2008, p. 20).

A pensional reform, whichever it might be, is imminent in the current situation of limited coverage and over expenditure of the CPS. No reform will be beneficial to society, even if it solves the financial matter, if it cannot guarantee a security to the elderly who has given his best years to work and can no longer rely on his strength to provide a decent life for him and his family. Moreover, no enhancement of the coverage can be achieved without guaranteeing the financial fundamentals of the system. To reconcile these two challenges the public regime must be promoted rather than halted, naturally restructuring its fundamentals to match the present economic and social reality of Colombia.

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