Spotlight on Retirement

LATIN AMERICA

SUMMARY REPORT

SOCIETY OF ACTUARIES®

LIMRA Secure Retirement INSTITUTE®

Spotlight on Retirement: Latin America

Summary Report

Hernán Poblete Miranda

Associate Director, International Research
LIMRA and LOMA
+569 78454757
hpoblete@limra.com

0498-1019 (50700-10-404-21507)

Contents

Tables and Figures

Introduction

Worldwide, public retirement systems are becoming increasingly responsible for the growth of state debt. The Swiss Re Institute is projecting the gap in public pension funding to grow at a rate of 5 percent per year, from US$70 trillion in 2015 to US$400 trillion in 2050.[1] In Latin America, the growth of workforce automation and increase in life expectancy, coupled with a decline in birth rates, are generating a “perfect storm” threatening to inundate public pension financing.

The problem is much more than a sum of economic perceptions about the past, present, and future. There are important cultural and psychological factors that may also affect birth rates. In Latin America and throughout the world, individuals today, regardless of their education, seem to factor in financial concerns — such as the continuing low-interest environment — when deciding to have children.

The convergence of economic, financial, cultural, and psychological factors — including increasing life expectancy, decreasing retirement assets, and declining birth rates — is leading to expectations that the population of Latin America will begin to decline from the year 2050.

The winds of change are blowing throughout Latin America, bringing both challenge and opportunity. As a region, Latin America is home to 660 million people and two of the world's largest emerging economies, Brazil and México. In recent decades, a wave of economic growth has raised the standard of living of millions of Latin Americans who have experienced significant improvements in medical care, lifestyles, and life expectancy. Along with these benefits, it has also generated demographic, social, and cultural changes that threaten to submerge existing retirement pension systems.

In the twenty-first century, Latin America has undergone a significant and rapid demographic shift towards an aging population, while economic growth has been uneven, due to various causes, mainly political. In some countries, economic growth occurred almost simultaneously with the aging of the population, allowing the financial system to develop, mature, and create alternative, sustainable pensions systems. In others, different factors have hindered development. Overall in Latin America, the population has aged slowly. While this has helped the development of various pension delivery schemes, many systems nevertheless face the challenge of financing the retirement of millions of citizens.

The aging societies impose a disproportionate burden on the working-age population, while simultaneously exerting immense pressure on current pension systems. To catch the wave of economic growth, young workers are increasingly moving to the cities, abandoning more and more elderly to live alone. Even in the recent past, retirees depended, at least partially, if not completely, on some members of their families and children for retirement income, as well as for long-term healthcare and support. However, with the average household size shrinking, a growing number of elderly people, caught in a financial undertow, now live and manage their lives on their own.

This study is designed to determine how consumers plan to face the challenges of their future or current retirement years and what their aspirations are. It is one in a regional series, including China in 2016 and Asia in 2018, published by the Society of Actuaries (SOA) and LIMRA to identify the retirement challenges facing many world markets.

[1] https://www.swissre.com/reinsurance/life-and-health/reinsurance/closing-asia-health-protection-gap/Asias-health-protection-gap.html. [Accessed on September 2019]

Executive Summary

For decades, Latin America has undergone significant demographic transition, driven by disparate factors: modern economics and traditional culture. The first, the uneven economic growth among Latin American countries, is very similar to that seen in Europe. The second, comprising high rates of early marriage and large families (Zavala de Cosío, 1992), is indigenous.

According to ECLAC data, in the last 25 years, the fertility rate has decreased rapidly from six to three children per woman. Moreover, the average for the region is below the replacement rate of 2.1 children per woman.[2]

This increasing stagnation of fertility has naturally led to increasing population aging. Moreover, not only is the Latin American population aging it is doing so at a rate unprecedented in its history — a phenomenon also observed throughout Asia. Chile, Argentina, and Brazil, followed by Colombia, Peru, and Mexico — the six countries considered in this series of reports — have the most rapidly aging populations in the region and all face a challenge to finance the retirement of their elderly.

In the current scenario, pension systems in most markets cannot provide adequate coverage or adequate income replacement for retirees and are under tremendous pressure to undertake massive reforms to ensure long-term sustainability. In the coming decades, the number of people over 60 years of age is likely to increase by 87 million. That is, the population over age 60 will grow at a rate of 3.4 percent per year until 2040.[3]

Therefore, it is essential that markets prepare to face the challenges of aging and avoid potential financial disaster for the elderly. Although it shows some pension reform in certain markets on the continent, the Pension Sustainability Index (PSI) by Allianz[4] reveals that most markets in Latin America are under tremendous pressure to improve and undertake new measures. Moreover, since people do not know precisely what changes will be made — if any — to the pension systems of their respective countries, they should take their own retirement planning seriously.

Our consumer research shows that almost half of respondents consider it their personal responsibility to finance retirement and do not want to depend on the government or family members. However, the number of those who do want to depend on the government is equally high. About half of the respondents regret having started saving and investing for retirement late or not having saved for retirement at all. About 64 percent of respondents fear encountering a gap in their retirement funds when they turn age 60. In addition, only about 36 percent of respondents expect to have 80 percent or more of the funds needed to lead a comfortable retirement life. Despite anticipating this retirement fund gap, most respondents do not seek professional help.

Thirty-five percent of the respondents stated they are very or extremely interested in buying a tax-deferred annuity. In addition, 7 in 10 respondents said they are willing to convert a portion of their assets in annuities to generate retirement income. Young Latin American workers showed a greater preference for the option of receiving a guaranteed annuity or income that has the potential to grow with the market. Banks remain the most popular channel to buy retirement income products in Latin America. In fact, banks were selected as the top distribution channel in all markets.

LIMRA and SOA jointly commissioned this research in Latin America to study current and future retirement market opportunities. **The study analyzes the public and private options available to consumers and their retirement planning behaviors.**

---

[2] Vergara, Jorge. "Identificación de Los Elementos Simbólicos y Materiales Que Inciden En La Construcción de Expresiones de Identidad y Estética Asociados a La Extrema Pobreza En Chile," Universidad de Chile, 2005.

[3] https://www.expansion.com/latinoamerica/2018/01/21/5a651b34268e3e75688b4575.html. [Accessed on September, 2019.]

[4] Finke, Renate. "2016 Pension Sustainability Index." p. 1–32, Allianz, 2016.

About the Survey

The retirement study in Latin America is a collaborative research project of the Society of Actuaries (SOA) and LIMRA. Using a sample of 6,218 respondents, it provides information on consumer perceptions of retirement in six major Latin American markets: Argentina, Brazil, Chile, Colombia, Mexico, and Peru. The sample focused on three demographic segments: young workers (30–45 years), early retirees (46–60 years), and retired people (60+) years. Young workers are generally at an early stage of their careers and may plan to marry or start a family. Early retirees generally plan to start or have started saving for retirement. Retirees are retired or are likely to retire soon.

Data were collected through an online survey in all selected markets. This study explores differences in attitude among different regions, subregions, age groups, and genders to help insurers and other financial organizations develop effective solutions that address the retirement planning needs of consumers. The study also highlights the preparation for consumer withdrawal, current and future sources of income, risk tolerances, product preferences, and product characteristics.

The study uses similar samples in each market (Table 1). In addition, it covers multiple subregions in each market to provide a representative sample of the target market for insurance companies and other financial institutions (see the technical report issued separately).

Table 1 — General Sample by Market Segment

Argentina	1,009
Brazil	1,056
Colombia	1,040
Chile	1,054
Mexico	1,044
Peru	1,015

Some sampling was performed based on income levels and other parameters to ensure better representation and data quality. Detailed tables and graphs about the study are available in the separate technical report.

Demographic Transition

The demographic transition in these countries is directly related to the widespread decrease in the mortality rate and the reduction in the birth rate. These causes are closely linked to the unchecked growth of the population in urban areas (compared to rural areas), where post-industrial conditions tend to produce wealth and its corollaries — sophisticated technology, ample food, improved health and healthcare, and more accessible transportation, among others. The pace of transition is accelerating worldwide and has reached countries in both Asia and Latin America.

It should be noted that the demographic transition in Latin America (if the analysis can be homogenized despite local particularities) is influenced by the high urban / rural and social imbalances.

From this perspective, the demographic transition in Latin America is determined by the high urban and rural imbalances, creating demographic factors that exacerbate the unequal growth of the economy and the social welfare of the population. Some of the regional economies are those that maintain the greatest inequalities worldwide, such as Chile (0.465) or Brazil (0.459), according to the Gini index.[5]

The picture is even more complex, since countries such as Brazil, Colombia, or Peru are still in a cycle of population growth. As a result of social inequalities and differences in total fertility rates, the poorest population is the fastest growing, with important consequences for changes in the age structure.

Both the various indicators of demographic transition and household income per capita show that social differences lead to greater inequalities in Latin America than those observed globally. "Its benefits, or demographic bonuses, are different according to social levels. In this way, the ability of the demographic transition to enhance intergenerational transfers of resources is closely associated with the implementation of policies that enhance social transfers of those same resources".[6]

As can be seen in Table 2, the countries selected in this study are expected to move from phase 3 to phase 4 of demographic transition, and in an accelerated manner. Peru and Mexico are still in phase 2 due to their birth rates. However, Peru's birth rate shows a 10 percent decline..

Table 2 — Incipient to Advanced Demographic Transition Scenarios

STAGE	INCREASE	COUNTRIES
Incipient transition	2.5% annual	Bolivia, Haiti
Moderate transition	Close to 3%	Salvador, Guatemala, Honduras, Nicaragua, Paraguay
Full transition	Moderate, close to 2%	Brazil, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Dominican Republic, Venezuela
Advanced transition	Under 1%	Argentina, Chile, Cuba, Uruguay

[5] The Gini coefficient is used to measure income inequality within a country. The Gini coefficient is a number between 0 and 1, where 0 is related to perfect equality (all have the same income) and where value 1 is related to perfect inequality (a single individual has all the income and the others none).

[6] Brito, Fausto, "Transição Demográfica e Desigualdades Sociais No Brasil," *Revista Brasileira de Estudos de População*, 25(1): 5–26, 2008.

As illustrated, **Peru** is in full transition due to the rate of growth of its population and the percentage of people over age 60, that is, the decreasing number of young and the increasing number of the elderly in the population. Clearly, the total fertility rate and the increase in life expectancy correlate to the growth and economic dynamism that the country has shown in the last 20 years, reaching an average gross domestic product (GDP) growth of 6.1 percent. According to the World Bank, robust employment and income growth significantly have reduced poverty rates. The percentage of the population living with less than US$5.5 per day decreased from 52.2 percent in 2005 to 26.1 percent in 2013, which is equivalent to saying that 6.4 million people rose from poverty during that period. Extreme poverty (those living with less than US$3.2 per day) decreased from 30.9 percent to 11.4 percent in the same period.

In the case of **Mexico**, demographic changes have caused a significant increase in life expectancy. In 2015, life expectancy at birth rose to 74.9 years. It is expected to rise further to 75.7 years by 2020. Moreover, increased access to education has led to an increase in human capital, creating a greater opportunity to enter the work market for large, previously marginalized sectors, generating more family income.[7] These internal demographic changes have accelerated the movement from rural areas to urban areas, increasing the concentration of pockets of poverty in outlying areas, mainly in the Federal District.

Mexico's experience is also a reality for most of the countries in the region (and the world) that have seen similar phenomena, especially those where the economy has grown and generated greater opportunities.

Colombia is also immersed in a demographic transition process, with its population shifting from high-to-low fertility and mortality rates. The total fertility rate in Colombia exhibits a significant reduction in the last 40 years, decreasing from almost six children per woman to a little over two per woman. The trend is consistent throughout Latin American, with several countries in the region, such as Chile, Argentina, and Uruguay, that have shown fertility transitions shrink to a level lower than two children per woman.

In fact, the decline of the fertility rate in Colombia is a widespread trend in Latin America between 1965 and 2010. During this time, the fertility rate in Colombia decreased from 6.18 children to 2.45 children, a greater decrease than the Latin America average (5.56 children in 1965 and 2.27 children today). While Colombia currently has lower fertility rates than Venezuela (2.55 children), Panama (2.56), Ecuador (2.58), Peru (2.6), and Bolivia (3.5), among others, its fertility rates are higher than those countries with the most radical fertility transition, such as Cuba (1.5 children), Brazil (1.9), Chile (1.94) and Costa Rica (1.96).[8]

Brazil is a peculiar case. As of 2010, fertility has been falling rapidly, falling from 6.07 in 1960 to 1.9 in 2010, while the childbearing age is becoming younger. Since 1991, women aged 20 to 24 years have the highest specific fertility rate, compared to prior years when women aged 25 to 29 years had the highest specific fertility rate. In addition, the relative fertility participation of young women aged 15 to 19 years in the total fertility of the entire reproductive period rose from 9 percent in 1980 to 23 percent in 2006.[9]

The economic conditions of the country have meant that the rates of uniparental homes under the responsibility of older adults have remained high and are possibly increasing. This trend is especially strong in the more developed states, such as Rio de Janeiro, where more than 42.8 percent of households are under the care of adults over age 60 years (Figure 1) — which means that these homes are mainly supported by retirement contributions.

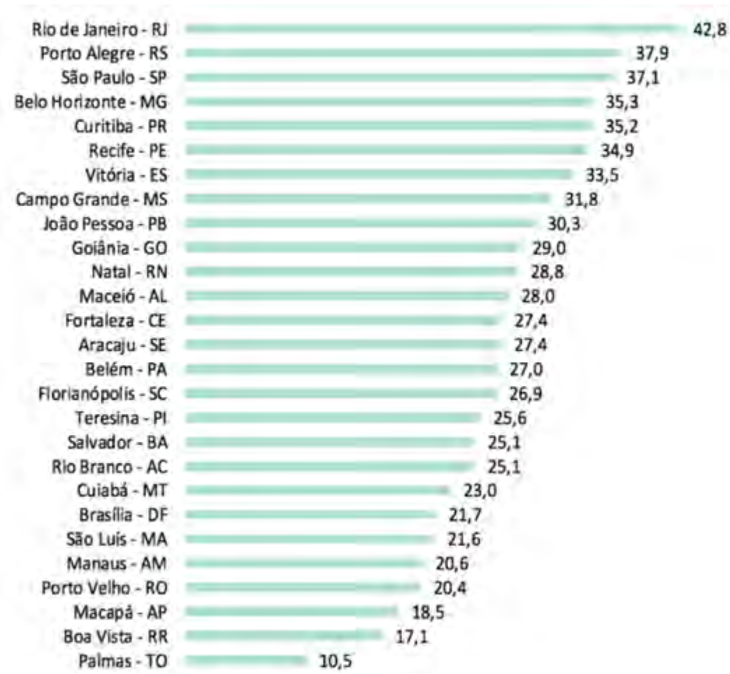
[7] Santana, Sergio R., and González and M. Alejandra K. Chickris, "Transición Demográfica En México," (65): 61–74, 2018.

[8] Mesa Salamanca, Andrés Camilo and Gustavo Adolfo Junca Rodriguez, "Análisis De Reducción De La Fecundidad En Colombia: Modelo De," *Cuadernos de Economía*, 30(54): 127–50, 2011.

[9] https://revistapesquisa.fapesp.br/es/2012/02/27/brasil-em-transi%C3%A7%C3%A3o-demogr%C3%A1fica/. [Accessed on September 2019.]

Figure 1 — Proportion of Heads of Households Age 60 Years or More

According to municipalities of the state capitals[10]



Since **Chile** does not show significant differences from other countries in the world that have experienced demographic transitions, some similar continuing evolution in its demography can be expected, especially regarding the aging of its population. However, it does differ in the high speed of its transition, compared with the countries of the Organisation for Economic Co-operation and Development (OECD). The main causative agent is the change in the reproductive pattern of women since the second half of the last century, which can be interpreted as a generalized trend in the post-industrial West.

However, the socioeconomic changes of the last 30 years have affected fertility decisions, notably in the significant increase in the educational level of Chilean women and its relationship to the average number of children per family. In addition, other factors, including the use of contraceptive methods, have also altered fertility decisions.[11]

"In Chile, the widespread use of oral and intrauterine contraceptives in the late 1960s, widely provided through state health services, made it possible for women to successfully choose to limit their families. This was an unprecedented innovation, as this state policy allowed women to create their own cultural projects, through their incorporation into the world of work and the development of areas of interests other than the family, more aligned to their personal growth."[12]

[10] Poblete, Hernán: *Evolution of the Profile of Elders Responsible for Domiciles in Brazil 1991 – 2010*, Brazil: IMR, IBGE, 2013.

[11] Cerda, Rodrigo A., *Cambios demográficos: desafíos y oportunidades de un nuevo escenario*, Santiago: Instituto de Economía UC, 2004

[12] https://www.gerontologia.uchile.cl/docs/chien3.htm. [Accessed September 2019.]

Twenty years after the beginning of the 21st century, Chile is in a stage of advanced demographic transition with the aging of its population: "The Chilean population shows a slight predominance of women, representing 51 percent of the total. In the 1982 Census, 32 percent of the population was under 15 years old, a figure that fell to 30 percent in 1992, with only 23 percent projected for the year 2020. On the other hand, the proportion of the population over age 65 increased from 5.8 percent in 1982 to 6.1 percent in 1992 to 10 percent in 2000 and is expected to continue to increase in the coming years."[13]

Argentina is one of the Latin American countries that began its demographic transition process earlier than most. Since the early twentieth century to date, it has undergone a sustained reduction in fertility rates and mortality in two decisive steps. These steps are related to economic development processes and state development policies (1950 and 1990) that have led to successive waves of decreased fertility and mortality. As a result, the country has had some experience in dealing with the problem. The dependency rate is defined as the proportion of dependent persons (under 16 years of age or over 64 years of age) per the population of working age (between ages 16 and 64 years). In 2010, the total dependency index was 55 percent, and the proportion of the adult population over 65 years of age in the working population age was 10 percent.

Moreover, although the projections are bleak, some analysts believe that Argentina has another 30 years of the most favorable age structure of its population, which could boost economic growth.[14] This demographic opportunity could offer the ideal condition to establish sustainable public policies in the long term and generate substantive economic and social opportunities. However, from the point of view of pension sustainability, it is one of the most vulnerable countries, in part because defined contribution pension programs have traditionally been very limited.

[13] Ibid.

[14] Gragnolati, Michele, Rafael Rofman, Ignacio Apella, Sara Troiano, "Argentine Social Protection in a Context of Demographic Transition," Gragnolati, Michele, Rafael Rofman, Ignacio Apella, Sara Troiano, "Argentine Social Protection in a Context of Demographic Transition," *As Time Goes By in Argentina: Economic Opportunities and Challenges of the Demographic Transition*, XLIII: 113–36, 2015.ion, XLIII: 113–36, 2015.

Phases of Demographic Transition

The demographic transition that occurred in the course of about 80 years in some Latin American countries has begun a new cycle that will increase dependency of the elderly retired on the young working population.

There are many theories about the different stages a country passes through in its demographic development. Sociologist Warren Thompson offers a useful approach, defining four phases based on birth and mortality rates. An additional fifth phase, “Zero Growth,”[15] has been added to describe contemporary conditions (Table 3).

As shown, there are no countries in **phase 1**, due mainly to the progress in global public health since the 1950s and the decline in significant war activities, famines, and epidemics. Phase 1 of the demographic transition refers to pre-industrial societies with high birth and death rates, in which individuals had to deal with low life expectancy and high infant mortality rates. In this environment, families were large and extended, and the population grew slowly and naturally.

Twenty years after the beginning of the current century, Latin America is still developing, but growing slowly, as mortality rates have decreased. This decrease is due to technological development, most notably in agriculture, where increased yields have led to lower prices that in turn have led to a decrease in the rates of malnutrition and infant mortality. In Mexico and Peru, increased access to education has helped limit exposure to many traditional health risks, limiting mortality and boosting life expectancy.

In **phase 2**, the mortality rate drops and the high birth rate continues to grow (in part, because economic improvements contribute to a decline in the age of marriage). In **phase 3**, however, birth and mortality rates decrease, causing population growth to slow, due to urbanization, women's access to education and the labor market, access to contraceptives, and the development of an economy less dependent on subsistence agriculture.

The transition to **phase 4** began in 1970 and describes a postindustrial society with specialization of services. In Phase 4, countries achieve historically low mortality rates. In addition, birth and death rates approach equality, causing population growth to slow to near zero, although high mortality rates may persist in phase 4.

Finally, **phase 5**, is the most complex of all because population growth is zero or negative. In other words, at this stage there are more deaths than births: *“While the original Demographic Transition model described by Warren Thompson presents only four stages, the passage of time has required the addition of a fifth phase in which the birth rate remains low, while mortality increases slightly due to population aging. In these circumstances, population growth can become negative, as has happened in the countries of Central Europe. Thus, in the more developed countries of Western Europe, such as Germany and Italy, negative population growth has been offset by positive numbers of the migratory balance, producing a stagnation of the population. The expression zero growth is a denomination proposed by the neo-Malthusian forecasts of the Club of Rome of 1970.”*[16]

[15] Thompson, Warren S., “Population,” *American Journal of Sociology*, 34(6), 959–975, 192. [Accessed September 2019], *JSTOR*, www.jstor.org/stable/2765883.

[16] https://es.wikipedia.org/wiki/Transici%C3%B3n_demogr%C3%A1fica#cite_note-8. [September 2019.]

Table 3 — Phases of Thompson's Demographic Transition

	Countries	Birth Rate (%)	Mortality Rate (%)	Differential (+ -)	Features
Phase 1	—	40-50	40-50	from +10 to -10	Mortality rates that were only found in the first half of the 20th century.
Phase 2	Chad	45.75	14.37	31.38	The birth rate is high and mortality falls sharply producing an increase in the population.
Phase 3	Peru	20.02	5.62	14.40	Birth rates begins to decrease, while mortality continues to decline, so population growth remains positive.
	Mexico	19.1	4.76	14.34	
In transition to Phase 4	Colombia	16.8	5.82	10.98	Both birth and mortality are already becoming equal, so that growth is insignificant and migration plays a fundamental role in population growth.
	Argentina	17.72	7.78	9.94	
	Brasil	14.93	6.07	8.86	
	Chile	13.39	5.11	8.28	
Phase 5	Japan	8.2	10.1	-1.9	The birth rate continues to fall until it falls below the mortality rate that continues to rise. Population growth is negative.

*Per 1000 people.

Source: With data from 2013 — https://es.actualitix.com/pais/wld/tasa-de-natalidad-por-pais.php [Accessed September 2019.]

Note: The extreme cases of Chad and Japan are shown for comparison purposes.

In order to provide a useful comparison with the LIMRA and SOA studies on pensions in Asia, this report will highlight what consumers in Latin American markets think about the challenges of retirement and how they plan to manage their various risks. At a global level, the study will also shed light on how financial institutions and advisors in the selected countries can help their clients address financial difficulties by developing new products and solutions. Finally, it explores whether the existing pension systems in Latin America are strong enough to support an aging population, given the scale and pace of aging in the region.

Sustainability of Pension Systems

The widely used Allianz Pension Sustainability Index (PSI) analyzes the fundamentals of pension systems and their key impacts to help identify the necessary reforms (Table 4). To create a ranking that is designed to accurately reflect the long-term sustainability of a particular pension system, German insurer Allianz analyzed 54 markets based on an extensive list of parameters.

The PSI uses the three main sub-indicators to measure the sustainability of a specific pension system:

- Demographic changes
- Public finances
- Pension system design

Table 4 — 2018 Pension Sustainability Index*

<table>
<tr><th>Sub-indicators</th><th>Status (0.75)**</th><th>Dynamics (0.25)**</th></tr>
<tr><td>Demografics</td><td>Old-age dependency ratio (OAD)*</td><td>Change in OAD* until 2050</td></tr>
<tr><td rowspan="3">Pension system</td><td>Level of pension benefit from 1st pillar and coverage of workforce</td><td>Change in level of pension benefit</td></tr>
<tr><td>Legal / Effective retirement age</td><td rowspan="2">Reforms passed</td></tr>
<tr><td>Strength of funded pillar and reserve fund (as % of GDP)</td></tr>
<tr><td rowspan="3">Public finances</td><td>Pension payments / GDP</td><td rowspan="3">Change of pension payments / GDP until 2050</td></tr>
<tr><td>Public indebtedness / GDP</td></tr>
<tr><td>Need for welfare support</td></tr>
</table>

*Ratio of ≥ 65 years of age to 15 to 64 years of age

**Weighting

Source: *Allianz Asset Management, International Pensions*, 2016.

Pension systems in Latin America differ widely in terms of design and sustainability. According to Allianz's analysis, “The outlook on pension spending in Brazil has worsened in recent years. The economic and financial crisis of 2019 and the lack of reforms are partly responsible for this development. While, on the other hand, Chile and Mexico climbed over five positions in the ranking compared to 2014, since the design of their pension systems improved and decreased the burden on public finances.”[17]

[17] Finke, Renate, *2016 Pension Sustainability Index*, Allianz 1-32, 2016.

"Three Latin American countries made their debut in the 2016 edition of the PSI — Argentina, Colombia, and Peru. Argentina and Peru have similar sustainability scores. Peru compares favorably with its peers, since its pension system does not weigh significantly on public finances and is not expected to in the foreseeable future. Its public debt / GDP ratio is low, the legal retirement age is in line with the average of 65 years of age, and the population is young and is expected to remain so near term. However, the coverage rate is low since the informal labor sector is large and contributions to the pension system are not mandatory for independent workers. In addition, the replacement rate is low, which implies a high risk of poverty in old age."[18]

Although Latin America's regional score improved in 2016 compared to 2014, the region still needs to do much more to establish a comprehensive pension system. Increasingly, governments are undertaking initiatives and have implemented or are considering implementing a multi-pillar system by introducing a range of funded pensions. Markets with strong funded pensions have a higher PSI ranking.

The sub-indicators consider both current state and future perspectives and assign a score of 1 to 10, with 1 as the lowest sustainability and 10 the highest (Table 5).

Table 5 — Ranking 2016 — Pension Sustainability Index, Latin America — Allianz[19]

		TOTAL	Demography	Public Finances	Pension System
	Score*	World Ranking	World Ranking	World Ranking	World Ranking
Chile	7.2	10	32	4	24
Mexico	7.1	12	14	14	34
Peru	6.7	19	5	1	47
Argentina	6.6	22	2	23	43
Colombia	6.2	38	23	2	48
Brazil	5.6	50	31	40	45

*On a scale of 1 to 10

Note: Includes markets covered in this study.

[18] Ibid.

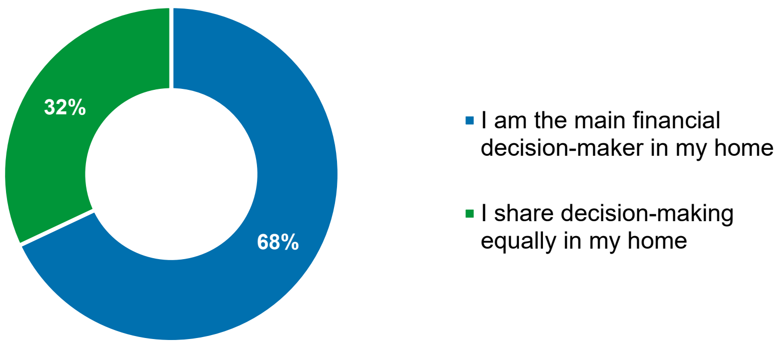
[19] Ibid.

Retirement From the Consumer Perspective

This study is designed to show how consumers in the selected markets make financial decisions about retirement. To that end, it surveyed primary decision-makers and/or those who contribute equally in financial decision-making (Figure 2).

It may seem intuitive that households in more economically homogeneous and mature countries, such as Chile, Argentina, and Colombia, would be more likely to share the financial decision-making role, while in growing economies with an indigenous base and poorer populations, such as Peru, Brazil and Mexico, a single individual in the home will more likely make financial decisions. However, studies conducted in 2008 in Peru and 2014 in Brazil suggest that households share financial decisions in a way not yet sufficiently studied (Poblete, 2018). As the problems and concerns of retirement affect both spouses and other people in the home, financial institutions and advisors are more likely to gain both access to and the trust of clients when they involve both spouses, especially in households in mature markets.

Figure 2 — Interviewed by Decision-Maker Role



Retirement challenges in Latin America must be considered in their cultural context; each country has singularities that make it different, despite common cultural aspects. In many countries, both workers and retirees continue to carry the financial burden of their families, in ways similar to what has been observed in Asia. Nearly 30 percent of Latin American households assume financial responsibility for parents, in-laws, and siblings. The rates of such dependence are particularly high in Peru and Colombia (Table 6).

Table 6 — Financial Dependence

Answering the question: *Which of the following individuals are your financial dependents?*

	Latin America	Argentina	Brazil	Colombia	Chile	Mexico	Peru
Children	57%	53%	52%	62%	58%	58%	57%
Spouse	43%	42%	44%	40%	37%	53%	43%
None	20%	23%	27%	16%	21%	18%	17%
Parents	19%	10%	10%	26%	20%	18%	28%
Brothers	4%	3%	4%	4%	5%	2%	6%
Others (uncles, aunts, cousins)	3%	2%	2%	3%	3%	2%	4%
In-laws	3%	2%	2%	3%	3%	3%	4%
Nephews	0	0	0	2%	0	0	0

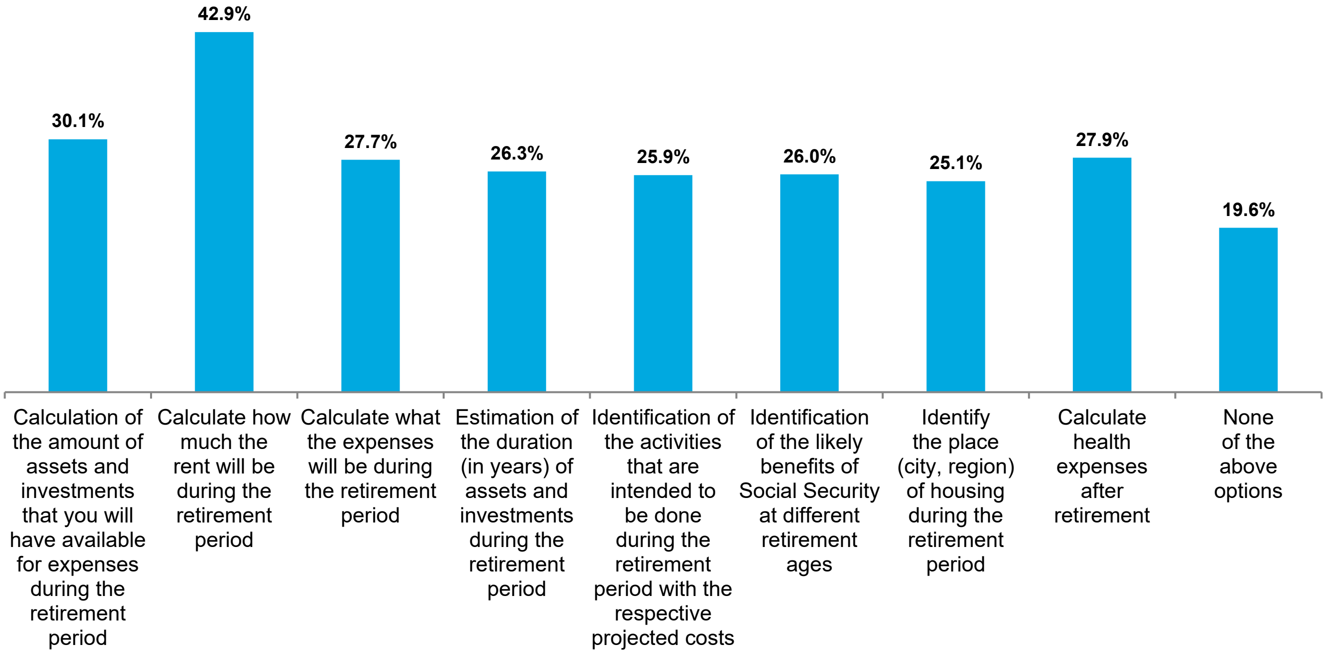
Nearly 55 percent of those responsible for the financial decisions said they do not work with financial professionals when making financial decisions for their households.

Almost 55 percent of respondents in Latin America do not work with any financial professional to help them with their households' financial decisions. This behavior prevails in all markets covered in the study, but is especially high in Mexico, where about 62 percent of the respondents said they had no activities related to retirement planning. In addition, the survey found that financial decision-makers in Brazil (63.5 percent) and Mexico (63.6 percent) do not seek help.

Twenty percent in Latin America have undertaken at least one activity with regard to retirement planning (Figure 3). The Mexican and Brazilian respondents claimed to have taken the largest number of initiatives with regard to retirement planning, especially when it came to calculating assets and investments and to determining the income and expenses of retirement. Notably, in terms of aging, they are most advanced. Also notably, the Chileans and Argentines have not shown as much initiative. In particular, it is worrisome to observe that a significant proportion of Chileans, around 73 percent, have not taken any action when it comes to retirement planning.

Figure 3 — Retirement Planning Initiatives

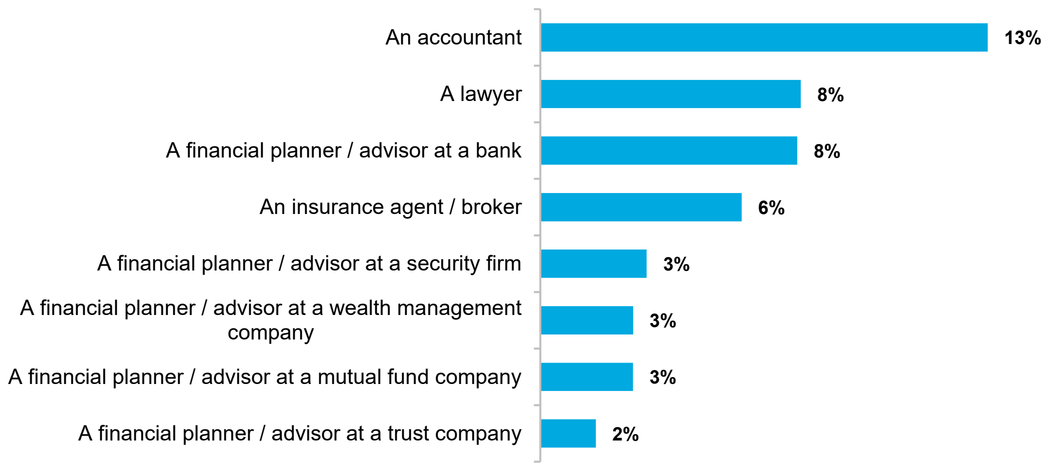
Answering the question: *Which of the following retirement planning activities did you do?*



However, a large proportion of those who do prefer to work with a professional, work with an accountant (Figure 4). Bank financial planners and lawyers were preferred to insurance agents or brokers. Financial planners in banks are preferred in Mexico, but not more highly than accountants, while in Colombia a proportion of consumers (10 percent) favor lawyers.

Figure 4 — Those Who Work With Financial Professionals, Work With ...

Answering the question: *In your household, you usually hire the help of financial specialists.*



Almost a third of respondents have a formal written plan to manage income, assets, and expenses during retirement. Among this group, 3 percent hired an offshore agent (Figure 5). The majority of those with some type of formal plan are from Mexico, Colombia, and Brazil, while a significant proportion of respondents from Argentina, Chile, and Peru stated that they do not have a formal written plan.

As in most countries of the world, Latin American consumers generally do not seek professional help when it comes to taking regular financial decisions to deal with retirement planning. Approximately two thirds do not seek professional help for retirement or do not have a formal written plan to manage income, assets, and expenses during retirement. In general, all countries surveyed show low rates of structured financial planning with a professional.

On the other hand, 62 percent in Latin America are confident that they will be able to live the retirement lifestyle they want. The level of confidence in having savings that are sufficient to last until the end of retirement (strongly agree and somewhat agree) is particularly low in rapidly aging economies such as Argentina and Chile (Table 7). The reasons for the low confidence are related to distrust of financial institutions and government policies, along with the high standard of living that exists during working years and the workers' awareness of the challenging experience of current retirees. The level of trust is much higher among workers and pre-retirees compared to retirees. More than 65 percent (strongly agree or somewhat agree) of retirees in Latin America are confident in leading their desired lifestyles. In Mexico, meanwhile, young workers have a greater confidence margin than retirees.

Figure 5 — Those Who Used a Foreign Consultant

Answering the question: *"Does your financial advisor operate at home or abroad?"*

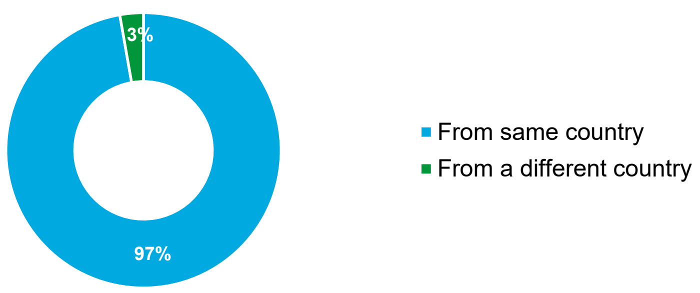
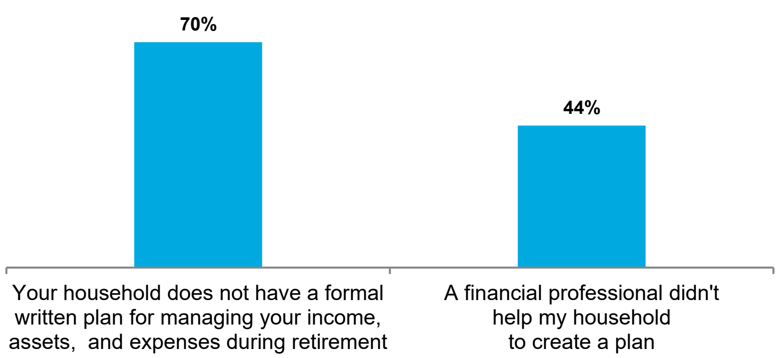


Figure 6 — Retirement Planning

Answering the questions: Do you have a formal written plan for the administration of income, assets, and/or expenses during the retirement period? Did a financial specialist help create the plan for your family?



Similar to the findings of the study in Asia, Latin America findings suggest that relatively younger individuals remain more optimistic and have a tendency to consider themselves more prepared or having taken more action. Mexico ranks first consistently in all parameters. However, this confidence can be driven in part by the optimism produced by youthful optimism, the growing access to credit, and the lack of awareness about the challenges of retirement savings for the future. Comparatively, Argentines are a bit more cautious and prudent (do not agree or disagree).

Almost 4 out of 10 respondents in the markets lack confidence in financial institutions, although slightly more than 6 out of 10 are willing to buy a financial product that will provide guaranteed income for life. This preference is particularly strong in Colombia, Brazil, and Chile.

Table 7 — Retirement Confidence and Actions Taken

For each of the following statements regarding your concerns and actions relating to retirement, indicate whether you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree or strongly disagree.

	Latin America	Argentina	Brazil	Colombia	Chile	Mexico	Peru
Confidence comparison							
I trust that I will be able to have the desired lifestyle in retirement.	62%	59.0%	59.8%	69.7%	46.6%	74.3%	65.4%
I have savings that are enough to last until the end of my retirement.	40%	31.7%	45.4%	44.0%	30.2%	47.4%	42.4%
Need help							
I would like my employer to provide more comprehensive information and advice on saving and retirement planning.	71%	65.3%	69.6%	75.9%	69.4%	76.2%	67.4%
Declaration of action							
I would be willing to buy or plan the purchase of a financial product that would provide a guaranteed annuity.	62%	51.0%	59.5%	72.0%	59.6%	69.7%	62.9%
I am currently very involved in the monitoring and management of my retirement savings.	50%	38.7%	54.5%	55.3%	45.6%	57.0%	50.3%
Challenge and mentality							
I don't trust financial institutions with my money.	37%	42.8%	33.3%	35.2%	45.4%	25.5%	38.8%
It's rare to hear people talking about workplace retirement planning.	58%	59.6%	60.9%	58.5%	55.1%	57.1%	56.8%
I inherited / will inherit my parents' assets.	32%	36.6%	36.1%	30.1%	26.6%	29.2%	33.0%

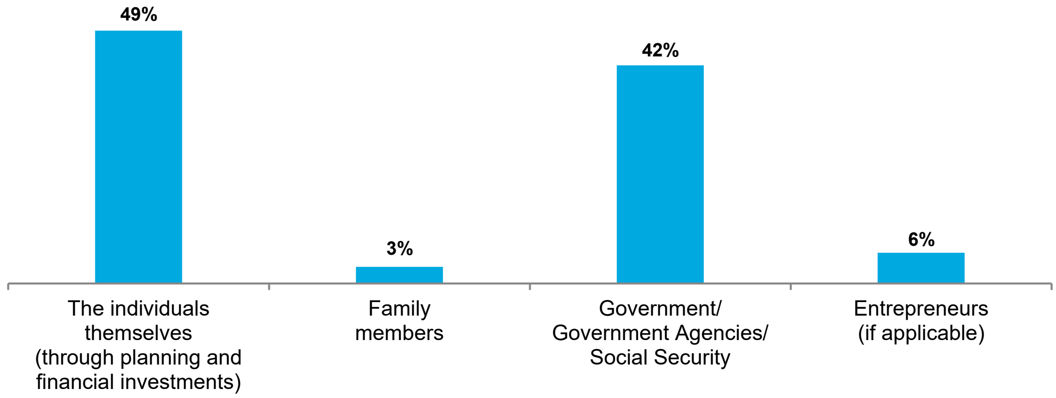
.

Consumers are willing to trust financial institutions, but they also believe that it is their personal responsibility to finance their retirement.

Almost half of the respondents consider it their responsibility to plan retirement and do not want to depend on the government or family members (Figure 7). The only exception, to some extent, is Argentina, where 55 percent of respondents say that the main responsibility for retirement security should be borne by government entities. However, 36 percent would accept the personal responsibility of financing their retirement.

Figure 7 — Main Responsibility for Providing Retirement Funding

Answering the question: *Who should be primarily responsible for providing retirement funding?*



The majority of the group that accepts personal responsibility for creating their own income streams in retirement will probably depend on their personal savings, investments, and social pensions / other local pensions (Table 8). If necessary, more than 70 percent of young people and pre-retirees in Brazil are willing to start working again and effectively ruled out retirement (Poblete, 2018). They do not plan to receive financial support during retirement from an inheritance or family members. Reverse mortgages are not popular in the selected Latin American markets. Other possible sources of income commonly cited are personal retirement plans (voluntary plans purchased directly through banks and insurance brokers/agents).

Table 8 — Source of Anticipated or Current Retirement Income

Responding to the question: *Which of the following sources of income does your household currently receive: [IF WORKER] Indicate from which sources you expect to receive retirement income.*

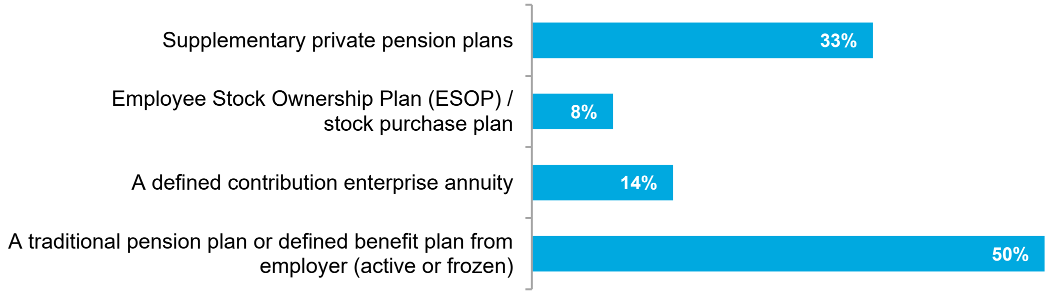
Source of income	Latin America	Argentina	Brazil	Colombia	Chile	Mexico	Peru
Personal savings and investments	84%	80.9%	83.0%	86.3%	81.5%	86.7%	85.5%
Social pension / Other local pension options / Social Security / INSS benefit / Colpensiones, AFP, Pension funds / IPS, AFP, Social pension	79%	79.8%	87.9%	85.0%	86.7%	80.4%	55.7%
Rent of real estate	61%	59.5%	57.4%	68.6%	59.9%	60.2%	62.9%
Employer-sponsored voluntary plans	55%	41.5%	57.5%	56.3%	63.6%	69.4%	42.1%
Income from full-time / part-time work	76%	76.9%	67.8%	76.8%	79.8%	75.0%	79.4%
Inheritance from a family member	38%	41.7%	39.6%	38.8%	35.9%	34.3%	38.3%
Family assistance (incl. children)	33%	29.7%	31.6%	34.9%	31.2%	34.2%	33.7%
Life insurance	55%	49.6%	45.5%	58.2%	56.5%	59.6%	60.4%
Reverse mortgage	20%	19.2%	23.9%	0.0%	26.7%	25.6%	25.3%
Personal retirement plans (voluntary plans purchased directly through banks and brokers / insurance agents)	54%	45.0%	58.9%	54.1%	55.4%	58.5%	54.1%
Social Security / Private Pension System (SPP) (Only in Peru)	—	—	—	—		—	73,2%

Note: The above numbers represent the summary of “Primary Source” and “Secondary Source” from the general options of “Primary Source,” “Secondary Source,” and “Not a Source.” Other local pensions include “Colombia: Colpensiones or AFP” and “Peru: Private Pension System (SPP).”

Approximately half of respondents indicate having traditional pension plans or defined benefit (DB) plans from their employers (Figure 8). In Colombia, the ratio is higher because about 71 percent of the sample indicate having access to DB plans. Otherwise, only 27 percent of the respondents in Brazil indicate having access to enterprise annuity defined contribution (DC) plans. Perhaps it is most surprising that more than 85 percent of respondents in the six countries said they did not have access to retirement plans sponsored by their employers.

Figure 8 — Retirement Plan Available Through Current Employer, Job, or Profession

Responding to the question: *What pension plans are available to you through your current employer, profession or job?*

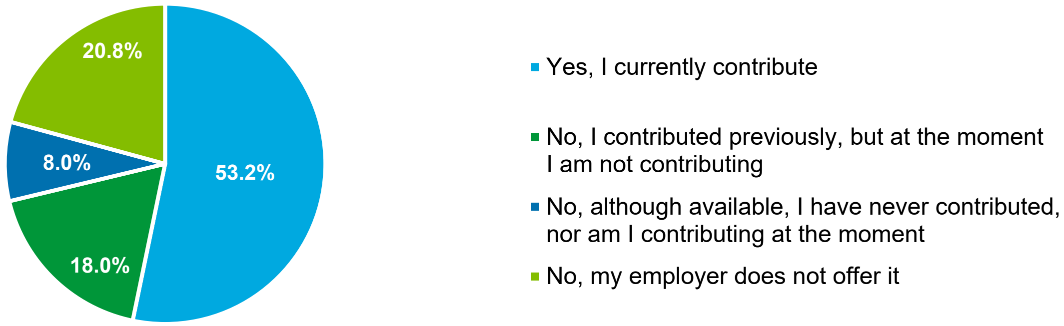


Definition: A **defined benefit plan** is a supplementary pension plan sponsored by the employer in which the worker's benefits are calculated using a formula that considers factors such as time of service and salary history. A **defined contribution plan** is a supplementary pension plan in which the worker and / or the employer contributes to the individual account of the employee under the plan. The timing of distribution includes contributions and gains or losses on investments, less administrative and investment management fees. The sponsoring company generally matches the contributions made by the employee. The defined contribution plan has restrictions that control when and how much each employee can withdraw funds without penalties.[20]

Just over 4 out of 10 respondents in Latin America said they do not contribute to any employer-sponsored retirement savings plan (Figure 9). Among non-contributors, some do not currently contribute, but have in the past; others are not contributing even though the option is available; and some do not have the option to contribute. Significantly, more than 30 percent of respondents in Chile said their employers do not offer retirement savings plans.

Figure 9 — Currently Contributing or Has Contributed to Any Employer-Sponsored Retirement Savings Plan

Answering the question posed to those who work full time or are self-employed / family business: *Do you currently contribute or have contributed to any type of supplementary pension plan sponsored by the employer?*

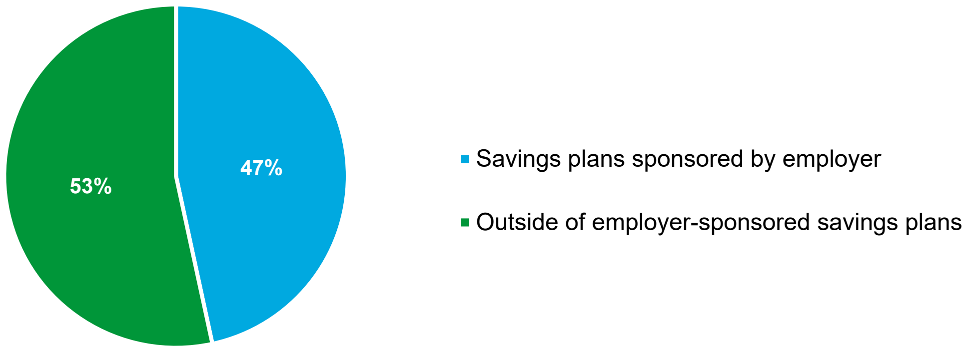


The majority of retirement savings are accumulating through employer-sponsored external savings plans. Some (53 percent of respondents) say they have saved for retirement outside the employer-sponsored schemes. This suggests that the coverage may not be adequate to cover the entire population and most people have to fend for themselves looking for alternatives. It is also worth noting that, although 39 percent of Chilean respondents stated that they are currently contributing to an employer-sponsored retirement savings plan, 44 percent of their total savings come from employer-sponsored plans. Respondents from Argentina, Brazil, and Colombia claimed to have accumulated most of their household savings outside the employer savings schemes (Figure 10).

[20] https://economipedia.com/definiciones/plan-de-contribucion-definida.html. [September 2019.]

Figure 10 — Share of Retirement Savings for Households in Employer-Sponsored Plans

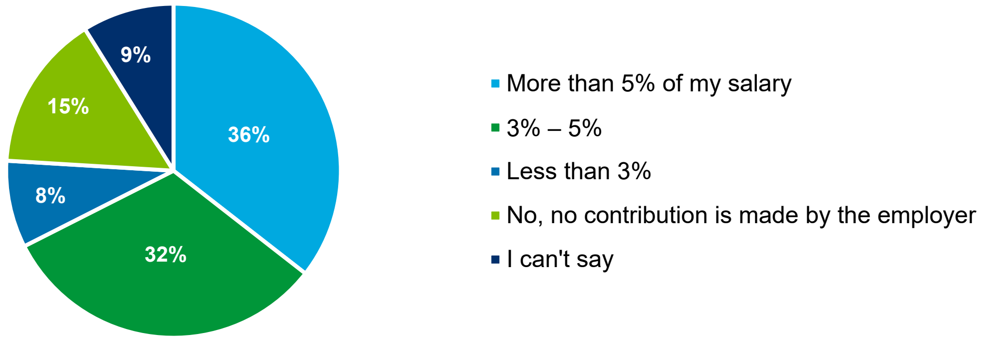
What percentage of all retirement savings in your household are employer-sponsored savings? Outside of the savings plans sponsored by your employer?



Throughout the region, the study found that most employers match contributions to defined contribution (DC) plans at rates from 3 percent to more than 5 percent (Figure 11). More than 50 percent of respondents from Colombia and Mexico stated that their employers made contributions of 3 percent to 5 percent. Brazilians indicated that 41 percent of employers equaled more than 5 percent of their contributions.

Figure 11 — Matching Employer Contributions

Answering the question: *When you contribute to your supplementary pension plan, does your employer currently provide a matching contribution (for example, 50 percent of the value of your contribution)?*

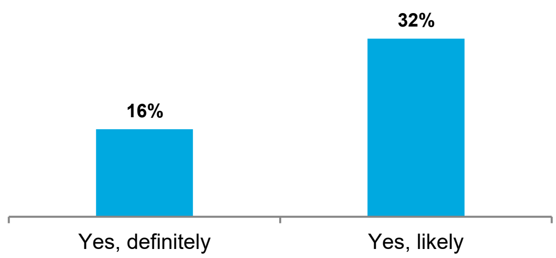


Throughout the region, respondents' level of confidence in the adequacy of income from employer-sponsored pensions or social pensions is approximately 50 percent (Figure 12). It is worth noting that only about 16 percent are very certain that their existing social and employer-sponsored pension plans will be adequate to meet the basic needs of life. Even in slightly more mature markets, such as Chile and Mexico with relatively more developed pension systems, almost half of the population is skeptical about the adequacy of pension systems. However, the most optimistic markets, such as Colombia and Brazil, are confident in the ability of pension systems to meet their basic needs. This average (~50 percent) could be due to a lack of understanding of the needs of old age or retirement compared to the more developed markets. This situation has multiple implications for Latin America, as it has for countries in Asia studied by LIMRA and SOA in 2018:

- If Social Security payments and pensions are not adequate to cover the basic expenses of retirement, households will have to create an efficient flow of income from their own savings and investments to last through retirement — something that is still happening on a very low scale.
- Financial advisors and institutions have a fundamental role to play in both educating their clients and offering financial products and solutions that include characteristics of guaranteed lifetime income. This practice is not frequent, especially by administrators of private pension funds in countries like Chile where there has been a recent legitimacy crisis. These countries are currently testing communication and education processes between plan participants and plan sponsors.
- Early retirees or retirees in markets that do not have or will not have a guaranteed income stream (such as government-sponsored programs, pensions, or annuities) to cover basic expenses may have to accept a gradual erosion of their retirement lifestyles.
- As the cost of living increases, retirees and workers who believe that pension income and the government-sponsored programs are sufficient to cover basic living expenses and retirement aspirations may find that their expectations are not met. Some of the selected markets may be beginning to reach modern standards of living and medical care. Therefore, this sense of retirement security can be false for many of the "young" countries and their workers.

Figure 12 — Adequacy of the Income of an Employer-Sponsored Pension or of a Social Pension to Cover Basic Retirement Expenses[21]

Answering the questions: *Is the amount of income from Social Security and supplementary pensions through a defined benefit plan sponsored by the employer sufficient to meet your basic needs (retirees)? Do you think that the amount of income from Social Security and the supplementary provision through an employer-defined defined benefit plan will be sufficient to meet your basic needs during the retirement period (young workers and pre-retirees)?*



Note: The response options provided were, "Yes, definitely," "Yes, likely," "No, that is unlikely," "Definitely not," and "I cannot say." However, for easy viewing, options are displayed only "Yes, definitely," and "Yes, likely."

[21] LIMRA, *Spotlight on Retirement: Asia Summary Report*, 2018.

In addition to other financial products, income from real estate and annuities are a popular way to generate retirement income, mainly in Colombia and Peru.

Certain behaviors, such as the willingness of many respondents to accept personal responsibility for retirement planning or lack of confidence in the adequacy of the social pension or defined benefit pensions sponsored by the employer, are common to Latin America. The 2018 Asian study had similar findings. Indeed, as is the case in Argentina, consumers all over the world seem to have an appetite for investments to fund their retirement years (Table 9).

Preferred methods to generate income from investments vary worldwide by market. In markets where there is a preference for financial products that provide income for guaranteed life, products with options to withdraw interest and dividends while leaving the capital intact are often most preferred.

Perhaps surprisingly, a significant proportion of respondents in all markets, with the exception of Brazil, would like to invest in properties to generate rental income. This is the case, although almost 15 percent of Argentine respondents have no plans to invest for retirement and say they do not know how to generate income from savings during retirement. This finding reflects lower retirement confidence because of economic problems and an environment of historical instability. In addition, throughout the region, as in Asia, reverse mortgages have not been popular, possibly due to lack of familiarity or the intention to transfer ownership to the next generation.

Table 9 — Method to Generate Income From Retirement Savings

Answering the question: *Which of the following best describes how your household plans to generate income from retirement savings?*

	Latin America	Argentina	Brazil	Colombia	Chile	Mexico	Peru
Withdrawal preferences							
Make regular withdrawals of part of the capital and part of the income	12%	11.7%	16.6%	8.4%	11.2%	13.4%	11.7%
Make occasional withdrawals, or when necessary, of a portion of the capital and a portion of the income	21%	20.1%	30.3%	15.3%	16.4%	25.3%	20.3%
Make withdrawals only from interest and dividends, without touching capital	29%	24.3%	34.5%	25.8%	23.1%	32.9%	31.0%
None of the above options. In my household, we do not intend to use retirement savings to generate income	12%	14.1%	10.5%	10.0%	13.8%	11.1%	9.8%
Interest in the purchase of properties or annuities for income or growth.							
Buy or search for a product that converts part or all of domestic savings into guaranteed annuity	25%	20.1%	22.8%	33.8%	20.1%	26.1%	28.0%
Corporate life annuity with tax benefit and survival coverage (contract that seeks the payment of continued deferred income for business owners, executives, and shareholders)	11%	6.3%	8.2%	12.4%	17.2%	10.5%	11.6%
Invest the savings for retirement in real estate and thereby generate rental income	41%	36.9%	32.2%	51.5%	38.9%	41.9%	44.4%
Opt for a reverse mortgage	4%	2.5%	5.1%	0.0%	4.1%	5.7%	8.9%
Temporary private income / private income	19%	15.6%	24.5%	21.8%	15.4%	16.4%	19.1%
I can't say	11%	16.4%	11.9%	6.8%	12.0%	9.3%	8.5%

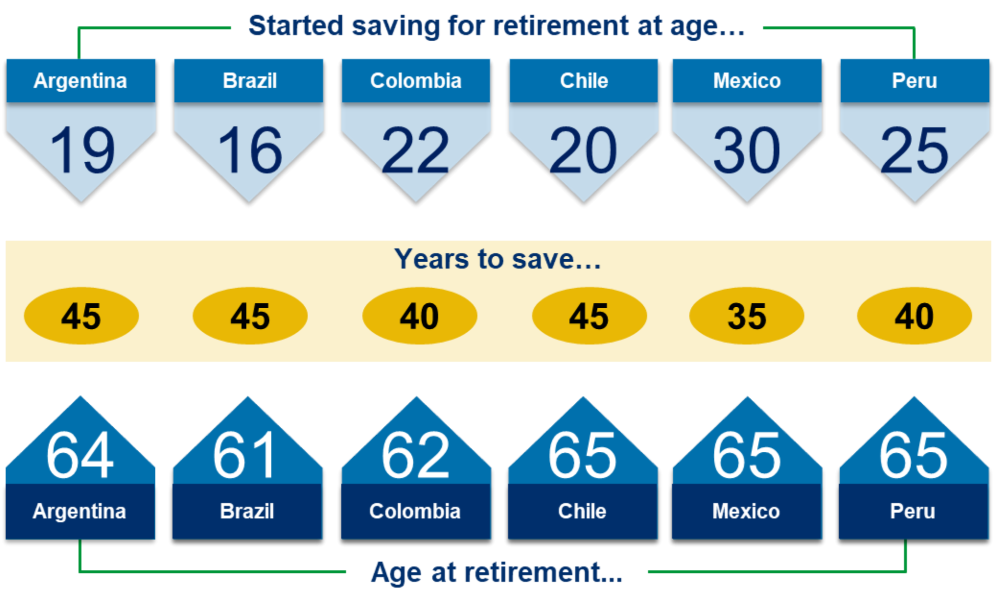
In addition to identifying investment preferences, it is also important to understand when consumers plan to retire and if their savings are sufficient to meet their retirement needs.

The retirement industry must understand the consumers' perspective on the amount of time required to save for retirement, how many years they expect retirement to last, and whether they correctly estimate their life expectancies at age 60.

Across the region, the time spent on retirement planning differs from one market to another. Most respondents generally start saving for retirement around age 20 years (compared to age 39 in Asia) and spend approximately 45 years preparing for retirement. Generally, there are no major regional differences, but respondents in Mexico spend less time preparing for retirement (Figure 13). However — and despite having a period much greater than that of Asia — more than 55 percent of those interviewed believe that the period is inadequate for retirement planning and would like to have more time to save.

Figure 13 — Retirement and Retirement Planning[22]

Answer the questions: *At what age will you start saving / investing for retirement? At what age do you expect to retire? How old were you when you retired?*



49% *in Latin America regret having started saving and investing for retirement a little late or have not started saving for retirement.*

64% *of people expect to have a significant gap in their retirement funds when they turn 60.*

[22] LIMRA, *Spotlight on Retirement: Asia Summary Report*, 2018.

As seen in the study, many of the respondents not only regret delaying retirement planning, but also expect to find a big gap in retirement funds when they turn 60 years of age. Sixty-four percent of respondents in all markets when reaching age 60 anticipate a gap in pension funds up to 80 percent, and only 36 percent expect to have more than 81 percent of the funds they need to lead a comfortable retired life. The expected gap in retirement funds is particularly high among workers in Brazil, Mexico, and Peru.

Most people have a tendency to over-estimate their life expectancies, which means that the financing gap may be less significant than believed.

There are psychological traits affecting people's behavior when it comes to their anticipated life expectancies. Unlike Asia, consumers in Latin American markets, except Chile, overestimate their life expectancy (Figure 14). Those countries with a lower life expectancy overestimate the expected life period during retirement and are likely not to exceed these expectations. The people of Colombia, Mexico, and Argentina overestimate it the most, which probably means that the gap in retirement funds is much smaller than most recognize. In the case of Chile, where people underestimate, the gap is likely to be larger than estimated.

Figure 14 — Anticipated Life Expectancy at Age 60 Versus Actual Life Expectancy at Age 60

Anticipated life expectancy (years) in retirement at age 60					
Argentina	Brazil	Chile	Colombia	Mexico	Peru
21.5	20.2	19.6	25.2	20.7	20.6

Versus

Actual life expectancy (years) at age 60*					
Argentina	Brazil	Chile	Colombia	Mexico	Peru
19.3	19.4	23.5	20.4	18.2	20.4
Differential estimate + / –					
11%	4%	-17%	24%	14%	1%

*Note: For comparison purposes, data 2035-2040 from the UN Population Division were used, considering the age ranges and quotas used in the study.

Source: United Nations, *World Population Prospects*, 2019.

Payment of healthcare expenses is the main concern during retirement.

As was also observed in Asia in the 2018 LIMRA SOA pension study, the majority of respondents in Latin America have valid reasons to worry about retirement. Main concerns include payment of healthcare expenses and related items, such as chronic diseases. Respondents are concerned about paying healthcare costs that are not covered by their Social Security medical supplements, that chronic illnesses can deplete the savings for life, or that the government or company will reduce health insurance benefits, health, or pension (Table 10).

More than 60 percent of an individual's lifetime healthcare expenses occur in old age, specifically after age 65.[23] However, concerns related to medical care are much stronger among young workers. Reasons for the concerns of young workers may include the rapid pace of medical-cost inflation, lack of confidence in the availability of future family support due to demographic changes that have undermined the traditional family structure, and the increasingly widespread practice of living alone in retirement — a phenomenon first observed in Europe but now spreading worldwide.

The effects of political discussions on the pension crisis in the context of sustainability also impact the people's perceptions. Respondents in Latin America have a high level of concern centered on the ability of the government or a company to support retirement, as an aging society puts pressure on medical care, medical insurance, and social pension benefits.

Among the concerns unique to specific markets, respondents in Argentina, Brazil, and Colombia are concerned about the rise in inflation. Argentina in particular has experienced historically high rates of inflation, and citizens may have seen their retirement savings reduced and even depleted as a result. In Peru, respondents are especially concerned about chronic illnesses that can drain lifetime finances.

In this, as in earlier LIMRA SOA retirement studies, most respondents do not name children as a cause of great concern in retirement. Most respondents are not worried about not leaving money for their children or other heirs and do not report a concern that their adult children will remain financially dependent on them (these children belong to a category called NEET for "Not in Education, Employment, or Training").

[23] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1361028/table/tbl4/. [September 2019.]

Table 10 — Key Concerns About Retirement

Answering questions: *How concerned are you in relation to each of the following items (retirees)? How concerned are you with each of the following items during your retirement (young workers, pre-retirees)?*

	Latin America	Argentina	Brazil	Colombia	Chile	Mexico	Peru
Longevity Risk							
Possibility that you or your spouse / partner outlives your assets	65%	51%	67%	62%	76%	66%	67%
Livelihood of your spouse / partner if you are going to die first	67%	62%	66%	65%	73%	68%	71%
Your own livelihood if your spouse / partner dies first	65%	58%	64%	63%	73%	64%	67%
Health Risk and Long-Term Care							
Be able to pay for health costs not covered by a supplemental health plan	83%	83%	85%	80%	91%	80%	81%
Find available long-term care / nursing home services	64%	61%	63%	64%	67%	65%	65%
A chronic disease can drain entire life savings	83%	77%	83%	80%	90%	82%	84%
Caring for the elderly	68%	65%	64%	68%	76%	66%	71%
Public Policy Risk							
The government or company will reduce health or health insurance benefits	81%	82%	81%	82%	88%	79%	76%
The government or company will reduce the pension benefit	79%	80%	81%	81%	86%	77%	71%
A society made up of older people will make it difficult for the government to assist the elderly	74%	70%	78%	73%	81%	73%	69%

Table 10 — Key Concerns About Retirement *(continued)*

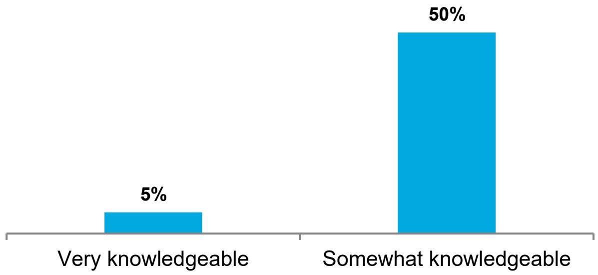
Answering questions: *How concerned are you in relation to each of the following items (retirees)? How concerned are you with each of the following items during your retirement (young workers, pre-retirees)?*

	Latin America	Argentina	Brazil	Colombia	Chile	Mexico	Peru
Economic and Market Risks							
The value of your savings and assets may not be able to keep pace with inflation	81%	82%	82%	80%	84%	80%	80%
Tax increase	83%	87%	86%	85%	83%	80%	77%
Prolonged stock market slowdown	68%	61%	61%	69%	77%	71%	69%
Fall in interest rates	73%	63%	72%	72%	78%	77%	77%
Inflation increase	85%	90%	86%	81%	84%	86%	83%
Increase in the cost of the dollar (Colombia)	65%	0	0	65%	0	0	0
Continue working after I retire	72%	68%	65%	71%	82%	67%	77%
Legacy to Relatives and Other Relatives							
Inability to find or keep a job during retirement	69%	65%	64%	68%	79%	68%	70%
I haven't started retirement planning yet	60%	54%	63%	55%	67%	55%	65%
Possibility of not being able to leave money for children or other heirs	60%	57%	59%	64%	64%	58%	61%
Possibility that my children do not take care of me and my spouse during our retirement	56%	49%	59%	54%	62%	54%	60%
My adult children belong to the NEETs group (they neither work, nor study — and they still depend financially on parents).	36%	30%	44%	39%	38%	29%	35%

Since consumers generally recognize their personal responsibility to generate their own retirement income and generally do not seek external advice for retirement planning, they need a sound understanding of investments and financial products. According to their self-assessments, more than 5 out of 10 respondents in Latin America said they have enough knowledge about investments or financial products (Figure 15). However, possibly for cultural reasons or lack of access or knowledge about guidance, consumers make investment decisions on their own, without formal written plans or advice from financial specialists.

Figure 15 — Self-Assessment of Knowledge of Investments or Financial Products

Answering the question: *In general, what is your level of knowledge about investments or financial products?*



Note: Four options were offered to respondents: “Expert,” “Somewhat knowledgeable,” “Not very knowledgeable,” “No knowledge.” The above results represent: “Expert,” “Somewhat knowledgeable.”

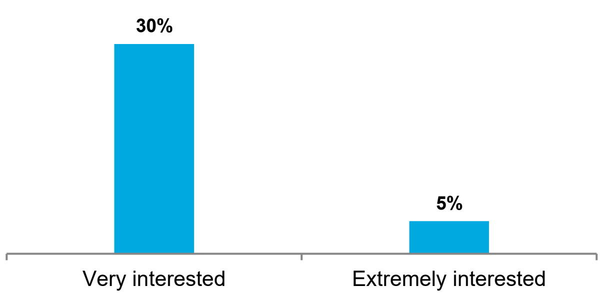
76% of respondents, over 7 out of 10, are willing to convert a portion of their assets into annuities to generate retirement income.

Consumers generally express confidence in their ability to make financial and investment decisions, and more than 7 in 10 respondents across Latin America stated that they are willing to convert a portion of their assets into annuities to generate retirement income, as found in the study. Respondents, particularly from Chile and Colombia, had an interest level of almost 80 percent.

However, the respondents did not express the same level of interest in deferring their income-tax payments with a tax-deferred annuity (Figure 16). The general level of interest in life annuities with deferred taxes was quite low in all markets (as opposed to what was found in Asia in 2018). Just over 3 in 10 respondents indicated some level of interest. Some in Mexico and Colombia had an interest level greater than 40 percent (very interested and extremely interested).

Figure 16 — Interest in Buying a Tax-Deferred Annuity

Answering the question: *A tax-deferred annuity is a product issued by a life insurance company that allows you to save money for retirement. Taxes on earnings are not paid until retirement when you begin withdrawing money from the annuity. Annuities also offer the ability to convert the balance into monthly income payments for life. If such products were available in your market, how interested would you be in purchasing one?*



Note: The above results represent “Very interested” and “Extremely interested” responses. Respondents were offered the following options: “Not interested,” “A little interested,” “Very interested,” “Extremely interested.”

Internet / Finance websites are the preferred channel for almost half of consumers interviewed as sources of information on investments, financial products, or retirement planning.

Since consumers recognize the need to prepare for a secure financial future, it is important for the financial and insurance industries to refine their approaches and work with governments and other partners to create and deliver affordable products that help address the retirement-funding gap. To this end, this study identifies retirement planning behaviors and product preferences.

Long before consumers decide to buy annuities, they have already reviewed different sources to obtain information on investment options and related product characteristics (Table 11). It is essential that the information is accurate and easy to understand and, more importantly, that it motivates consumers to take action to achieve a positive retirement outcome.

Table 11 — Preferred Method of Obtaining Information on Investments, Financial Products, or Retirement Planning

Answering the questions: *Where do you get information about investments, financial products, or private pension plans? Select all the options that apply to your case.*

	Latin America	Argentina	Brazil	Colombia	Chile	Mexico	Peru
Workshops and / or seminars	9%	5.3%	10.6%	13.5%	7.8%	9.9%	9.8%
Brochures or other printed materials provided by the employer	11%	5.8%	8.0%	13.9%	12.7%	12.6%	14.3%
My own consultant / financial planner / insurance broker	22%	18.1%	26.7%	21.6%	15.9%	30.8%	16.2%
Employer (Human Resources or Benefits Department)	14%	9.5%	15.0%	17.5%	13.1%	17.3%	12.2%
Representatives of the company that manages my employer's private contribution defined contribution plans	16%	8.5%	14.6%	21.2%	13.3%	18.8%	18.2%
Website with information about my specific private pension / pension fund account	28%	21.0%	25.1%	31.2%	36.3%	25.7%	30.3%
Social networks / networking sites	24%	19.9%	26.5%	24.3%	25.1%	17.5%	28.8%
Mobile applications	11%	9.8%	18.1%	9.3%	10.1%	9.1%	11.0%
Family, friends, or co-workers	36%	36.9%	36.8%	39.2%	34.3%	35.1%	34.8%
Internet / Finance	50%	47.2%	57.9%	51.5%	49.0%	44.2%	48.0%
Websites	36%	36.3%	31.6%	35.8%	42.7%	32.4%	39.0%
Books, magazines, and newspapers	20%	18.5%	21.6%	26.4%	19.4%	14.3%	21.2%
TV or radio programs	18%	18.2%	18.0%	20.4%	22.2%	10.0%	17.0%
From nowhere, I don't know where	7%	14.4%	5.9%	4.4%	5.5%	7.7%	6.2%
Other	2%	1.9%	2.7%	1.1%	1.7%	1.8%	1.0%

A high proportion of respondents approached family and / or friends to obtain information on products and investments.

While consumers approach a wide variety of sources to obtain investment information with some frequency, they were disappointed by the usefulness of the information they received. For example, more than half of the respondents did a web search and reached financial websites, but only a quarter of them (21 percent) found it useful. In addition, 22 percent of respondents preferred to contact financial advisors / planners / insurance agents to obtain product information, but only 14 percent of respondents expected them to be useful. The numbers are particularly low in all countries, and in Chile the level of satisfaction is below 10 percent (Table 12).

Consultants, financial planners, and insurance broker are expected to have a solid knowledge of their products and be able to provide clear explanations because of their knowledge and specialized training. Yet few markets report satisfaction with the ability of consultants / financial / insurance broker planners to deliver information effectively. Clearly, the industry must work harder to help consumers identify trustworthy professionals able to help educate them and find the product appropriate to their needs.

Table 12 — Usefulness of The Information Obtained From Different Channels or Methods

Answering the question: *What source of information did you find most useful?*

	Latin America	Argentina	Brazil	Colombia	Chile	Mexico	Peru
Internet / Finance websites	21.1%	24.2%	25.2%	20.5%	18.7%	17.7%	20.4%
My own consultant / financial planner / insurance broker	14.3%	13.0%	17.5%	13.3%	9.8%	22.0%	10.4%
Family, friends, or co-workers	13.6%	19.9%	11.2%	12.4%	12.8%	13.2%	13.1%
Websites (other than finance)	11.4%	12.6%	7.6%	10.3%	16.5%	9.1%	12.2%
Website with information about my specific private pension / pension fund account	9.8%	6.0%	7.4%	10.4%	13.3%	10.0%	11.3%
Representatives of the company that manages my employer's private contribution defined contribution plans	6.8%	2.5%	5.9%	9.3%	5.6%	8.5%	8.5%
Social networks / networking sites	4.7%	4.1%	5.0%	4.9%	4.5%	2.4%	7.4%
Employer (Human Resources or Benefits Department)	4.2%	2.9%	3.7%	5.2%	4.1%	5.4%	3.7%
Books, magazines, and newspapers	3.6%	4.9%	3.9%	4.4%	3.7%	1.5%	3.5%
TV or radio programs	3.2%	4.3%	3.4%	2.4%	4.2%	2.1%	2.8%
Workshops and / or seminars	2.7%	1.0%	1.8%	4.2%	2.4%	4.0%	2.7%
Mobile applications	1.7%	1.9%	3.5%	1.1%	1.7%	.8%	1.1%
Brochures or other printed materials provided by the employer	1.4%	.9%	1.0%	.9%	1.4%	1.8%	2.1%

Note: The options were provided according to the options selected in the question relating to the preferred method for obtaining information on investments, financial products, or retirement planning.

In all markets, consumers indicated a preference for more conservative product characteristics.

Beyond the issues of cost, we asked respondents to share their preferences for products or financial investments with the potential to generate income in retirement. Not surprisingly, as in Asia, respondents preferred more conservative products (that is, products that would give predictable returns and help preserve capital). Consumers in Latin America also showed strong preferences for guaranteed income for life, income adjusted for inflation, and investments with guaranteed return. There was also a great interest in income with the potential to grow with the market.

There were unique product preferences in different markets. Peru, Colombia, and Brazil expressed relatively higher preferences for income with the potential to grow with the market, while Argentina, Chile, and Mexico expressed a greater interest in products guaranteed for life. Colombia expressed interest in income that continues after the death of the policyholder or the death of a spouse and Brazil for products that offer a lump-sum withdrawal option linked to a self-managed account.

Although there were certain generational differences, they were not significant. Young workers in Brazil, Chile and Peru (age 30 to 45 years) expressed interest in having money as an option for heirs or for charity institutions posthumously (just over 45 percent), compared to the pre-retired (from age 46 to 60 years) or retired (from age 61 years to age 75 years). Compared to the older segment, Latin American young workers also showed a greater preference for an option to receive a guaranteed annuity or income that has the potential to grow with the market. In general, consumers do not show a very strong preference for insurance and their premium structures (Table 13).

Table 13 — Most Preferred Product Features

Answering the question: *Regardless of cost issues, which of the following characteristics are most important to you when selecting financial products or investments that could be used to generate income in retirement?*

	Latin America	Argentina	Brazil	Colombia	Chile	Mexico	Peru
Guaranteed annuity	60.4%	50.4%	63.4%	70.7%	60.6%	59.0%	58.4%
Income adjusted for inflation	55.1%	59.7%	61.9%	54.7%	52.6%	54.1%	47.6%
Income that will remain the same or fixed throughout the retirement period	46.8%	34.1%	51.6%	51.0%	50.9%	49.0%	44.4%
Income that has the potential to grow with the market	59.1%	52.1%	62.7%	63.6%	58.5%	58.3%	59.1%
Income that will continue after my death or the death of my spouse	52.4%	44.8%	50.9%	61.8%	52.5%	53.0%	51.2%
Income amount that can be modified as my needs change	49.9%	46.8%	52.9%	50.4%	46.7%	51.8%	50.8%
Income that can be converted into a lump sum payment	36.2%	27.8%	44.3%	37.7%	35.2%	37.2%	35.2%
Initial investment that is preserved or protected	54.5%	45.7%	58.2%	61.3%	52.6%	55.3%	53.8%
Control over how investments are managed	53.2%	45.3%	59.2%	57.1%	51.8%	52.5%	53.1%
Investment with guaranteed return	57.6%	50.2%	64.5%	65.9%	52.8%	55.2%	57.1%
Money for heirs or for charity institutions posthumously	30.8%	26.8%	31.5%	34.4%	31.5%	31.9%	28.6%
Ability to make withdrawals of securities that exceed the regular amount of the retirement income	36.6%	31.3%	42.2%	36.3%	38.0%	36.4%	35.0%
Option to receive predefined payments of annuities in foreign currency (for example, USD, AUD)	41.0%	45.4%	36.1%	44.7%	36.5%	39.1%	44.4%
Single premium	30.4%	19.7%	28.9%	35.6%	30.8%	34.6%	32.8%
Level premium	29.2%	18.5%	29.3%	39.0%	26.8%	32.4%	29.2%
Increasing premium	38.6%	26.6%	40.6%	53.3%	32.8%	41.5%	36.7%
Fiscal benefits	41.2%	35.5%	40.8%	46.2%	47.9%	45.5%	31.6%
Option to withdraw all the money as a lump sum and manage on your own.	42.8%	36.0%	40.5%	40.0%	50.7%	42.5%	46.9%

Note: The following options were given to respondents: Not important, A little important, Very important, I don't understand this feature. The results shown are the percentage of respondents who selected "Very important."

Definitions — ***Single premium:*** an insurance plan in which a lump sum of cash is paid in advance to guarantee payment to the beneficiaries. ***Level premium:*** a type of term life insurance for which premiums remain the same for the entire duration of the contract. ***Increasing premium:*** the insurance premium is calculated according to the insured's age, which means that the younger they are, the lower the cost and premiums will be, and the premiums will increase over time.

Banks emerged as the most preferred distribution channel. Digital channels were also of interest.

In both Asian and Latin American markets, respondents selected very similar product characteristics, although with some local differences or specific market segments. For example, the product features designed to reflect the performance of a market perceived as "growing" were widely popular, while other top choices reflected unique needs for specific markets (Table 13). It is not surprising that the “analog” channels dominated in all markets. Digital technology has yet to achieve significant penetration in Latin America, with banks being the highly preferred channel for retirement products, ahead of agents and brokers. Surprisingly, as in Asia, Latin American retirees (age 61 years to age 75 years) expressed a little more interest than younger respondents did in buying from banks.

In Colombia, respondents considered insurance companies as a viable channel for retirement products. In Brazil, respondents preferred brokers / financial advisors that sell multiple products to pension agents.

However, digital channels have gained some momentum and were particularly favored in Argentina and Chile. As in Asia, insurers' websites were preferred in all markets, although websites offering comparisons of insurance offers were preferred in Chile and Peru (Table 14).

Table 14 — Top Five Channels for Retirement Products

Answering the question: *If you had to buy a product with the features you selected, where would you like to buy it?*

Bank	43%
Insurance company	18%
Broker / financial consultant (sells multiple products)	11%
Broker of a private pension company	9%
Through the company's website	5%

Opportunities for the Industry

As evidenced by the data obtained in this study, consumers worldwide share certain retirement concerns and behaviors. In an environment where there is plenty of information, and consumers are aware of the threats to their financial security, they do not feel prepared (nor are they) to weather a financial storm. The complexity of the retirement gap, which has historical, psychological, and social sources, makes it clear that the industry alone cannot prevent a crisis in the Latin American retirement market. However, it is possible to help consumers better prepare to cope with its effects.

The industry has an opportunity to help close the growing consumer-retirement gap. The LIMRA and Society of Actuaries research points to significant areas of opportunity that the financial services industry can explore. They are:

- **Responsibility —** almost one half of respondents in Latin America consider it their personal responsibility to plan retirement and do not want to depend on the government or family members. However, almost the same proportion of people, especially in Argentina and Chile, stated that the primary responsibility for retirement security belongs to government entities.
- **Retirement planning —** 70 percent of respondents do not have a formal written plan to manage income, assets, and expenses during retirement, and 44 percent do not reach out to financial professionals for planning retirement. Over 70 percent of respondents in Argentina, Brazil, Chile, and Peru said they have no formal written plans. Some of the respondents may be willing to plan for retirement themselves, but the question remains whether they are able to understand the complex challenges of retirement planning and take the necessary measures to ensure their retirement security.
- **Procrastination —** almost half of the respondents regret having delayed retirement planning, although they indicated that retirement planning is their responsibility. The feeling of regret was especially high among respondents from Brazil and Chile. These findings demonstrate the increasing need for professional guidance, since young workers as a group had the highest level of regret in their delay, overtaken only by pre-retired workers (age 45 years to age 60 years), the group that regretted it most. This finding demonstrates that people often miscalculate how much money and how much time they need to save and invest and, later, realize that they have not saved enough.
- **Retirement funding gap —** 64 percent of respondents anticipate a gap in retirement funds when they turn 60 years of age, and only 36 percent of respondents expect to have more than 81 percent of the funds they need to lead a comfortable life in retirement. The expected gap in retirement funds was particularly high among workers in Brazil, Mexico, and Peru. This significant gap is the result of lack of retirement planning.
- **Overestimation of life expectancy —** consumers in most of the selected markets overestimate their life expectancies. On the other hand, countries with higher life expectancies underestimate the duration of retirement. Chile is the only country in the sample that underestimates its life expectancy, which may mean that the gap in retirement funds is greater than the interviewees acknowledge; for all others it is likely less. This differential not only affects retirement income but also health expenses in retirement.

- **Willingness to buy annuities —** consumers generally expressed confidence in their ability to make financial and investment decisions. Almost 8 out of 10 respondents in Latin America stated that they are willing to convert a portion of their assets into annuities to generate retirement income. Respondents, particularly from Colombia and Mexico, expressed great interest in annuities. It is also interesting to note that younger respondents are especially interested in buying annuities. These findings coincide with what was found in Asia in 2018. Clearly, they indicate the interest of the global consumer in annuity-type products.
- **Preferred product characteristics —** Latin American consumers show strong preferences for guaranteed income for life, income adjusted for inflation, and investments with guaranteed return. There is also a great interest in income with the potential to grow with the market. Some markets show specific product preferences due to their current situations: Argentina and Brazil express relatively stronger preferences for incomes that adjust to inflation, while Brazil, Colombia, and Chile express a greater interest in products with guaranteed return. The study points out the importance of creating products that meet the unique needs of different markets, while maintaining conservative product characteristics of proven success.
- **Preferred channels to buy —** "analog" channels continue to dominate all markets; and although digital technology is considered a way to obtain information, it is still not frequently considered as a purchase channel. Instead, banks are the preferred channel for retirement products in Latin America, well ahead of agents and brokers. Latin American retirees (age 61 years to age 75 years) express a little more interest in buying from banks compared to younger respondents.
- **Key opportunity —** despite expectations, behaviors, and intentions, retirement consumers in Latin America face an uncertain and possibly very complex future. The demographic change produced by the longevity revolution is increasing the older population. Moreover, the accelerated rate of that change and the disproportionate burden on the working-age population threaten the viability of the current pension systems in the region and throughout the world. This challenge represents a historic opportunity for the private retirement industry. Given the type of short- and medium-term changes that are expected, the industry can help shelter retirees by educating them, building trust, simplifying products and services, and delivering these products and services through preferred channels.

Bibliography

Brito, F. "Demographic transition and social inequalities not Brazil." Brazilian Magazine of Estudos de População, 2008. Retrieved on September 2019, from https://doi.org/10.1590/S0102-30982008000100002.

Cerda, R.A. "Demographical Changes: Challenges and Opportunities of a New Scenario." *Rodrigo A. Cerda Instituto de Economía UC,* 2004.

Finke, R. "2016 Pension Sustainability Index." Allianz*,* 2016. Retrieved September 2019 from https://www.allianz.com/v_1396002521000/media/press/document/2014_PSI_ES_final.pdf.

Gragnolati, M., R. Rofman, I. Apella, and S. Troiano. "Argentine Social Protection in a Context of Demographic Transition." *As Time Goes By in Argentina: Economic Opportunities and Challenges of the Demographic Transition*, *43:* 113–136, 2015. Retrieved September 2019 from https://doi.org/10.1596/978-1-4648-0530-1_ch5.

Mesa Salamanca, C.A., and G.A. Junca Rodriguez. "Analysis of Fertility Reduction in Colombia: Model of." *Cuadernos de Economía*, *30* (54): 127–150, 2011.

Poblete, H. *Ethnography in Composite Commercial Microcenters, Santiago de Chile, IMR,* 2018.

Santana, S.R.G., and M.A.K. Chickris. *Demographic Transition in Mexico*. (65): 61–74, 2018.

Zavala de Cosío, M.E. *The Demographic Transition in Latin America and Europe*. (Paris), 1992.

With roots dating back to 1889, the Society of Actuaries (SOA) is the largest actuarial professional organization in the world with more than 30,000 actuaries as members. Through research and education, the SOA's mission is to advance actuarial knowledge and improve the capacity of actuaries to provide expert advice and relevant solutions to financial, business and social challenges. SOA's vision is that actuaries are the leading professionals in risk measurement and management.
www.SOA.org

The LIMRA LOMA Secure Retirement Institute was established in 2013 with the objective of providing objective and comprehensive research and education to help improve retirement outcomes. Our research agenda covers all aspects of the industry and examines problems related to saving, investing, and generating retirement income.

0498-1019 (50700-10-404-21507)