

# Colombia

## Colombia: Pension system in 2010

The system allows people to choose between a defined-benefit system (*Regimen de Prima Media – RPM*) managed by a public sector entity, and the Individual Savings System with a welfare benefit (RAIS) managed by the private sector. For new affiliates, there is a Minimum Pension Guarantee Fund (MPGF).

## Key indicators

		Colombia	LAC26
Average earnings	COP (million)	12.0	13.4
	USD	6 300	7 000
Public pension spending	% of GDP	3.5	3.1
Life expectancy	At birth	74.0	73.6
	At age 65	17.4	17.4
Population over age 65	% of working-age population	10.5	12.3

## Qualifying conditions

### Defined-benefit System of Average Premiums (*Regimen de Prima Media – RPM*)

The income-based scheme has gone through a number of changes since 2006. The retirement age has progressively increased: for those retiring before 2014, the retirement age is currently 60 for men and 55 for women; but starting on 1 January 2014, the retirement age will increase to 62 for men and 57 for women.

The number of weeks of contributions will increase each year by 25 until reaching 1 300 weeks in 2015:

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Weeks:	1 050	1 075	1 100	1 125	1 150	1 175	1 200	1 225	1 250	1 275	1 300

Men older than age 40 and women older than 35 and workers with at least 15 years of contributions when the individual accounts system went into effect can receive benefits in accordance with the previous system, or join the private system.

Affiliates of the RPM have the option of receiving alternative compensation, as long as, having reached the age of eligibility for an old-age pension, they have not contributed the minimum number of weeks required or they are unable to continue contributing.

### System of Individual Savings with Welfare Benefit (*Régimen de Ahorro Individual con Solidaridad – RAIS*)

In either the system of individual savings or defined contribution, insured people can retire when they have a sufficient balance in their individual accounts to finance an annuity equal to 110% of the minimum pension.

The minimum age to draw a pension is 62 for men and 57 for women, with 1 150 weeks of contributions.

Insured people enrolled in the RAIS receive a return on their contributions with their respective earnings.

## Benefit calculation

### **Earnings-related benefit**

Pensions vary between 55% and 65% of the average contribution base wage in the last ten years, revaluated for inflation, plus 1.5% for each additional period of 50 weeks of contributions up to a maximum of 80%. (The formula for estimating the percentage of the pension is 65.5% of the average contribution base wage minus 0.5 percentage points for each minimum wage on which the person contributed.)

### **Minimum pension**

The minimum pension is equal to the legal minimum wage. Pension benefits are paid 13 or 14 times a year. Pension the benefits are adjusted annually according to the consumer price index (IPC) and depending on the value of the benefit.

## Defined contribution

The defined-contribution benefit can be paid under a phased withdrawn based, an annuity, or a combination of the two.

Workers can switch system every five years, up to ten years before reaching retirement age.

### **Alternative compensation**

The alternative compensation is equal to an average weekly base settlement income multiplied by the number of weeks of contributions. A weighted average of the percentages on which the affiliate has contributed is then applied to this result.

## Variant careers

### **Early retirement – RPM**

Early retirement is generally not possible. There are two exceptions for individuals with disabilities or for women with caring responsibilities for disabled children.

### **Early retirement – RAIS**

Pension withdrawal is flexible in RAIS and individuals have the right to an old-age pension at the age of their choosing given that the accumulated capital enables them to withdraw a monthly pension equal to or above 110% of the monthly legal minimum wage. RAIS pension benefits are adjusted annually according to the change of the consumer price index.

### **Late retirement – RPM**

Late retirement is not possible under the public pension system.

### **Late retirement – RAIS**

The employer is required to make the employer contributions until the worker reaches age 60 (women) or 62 (men).

## Personal income tax and social security contributions

### **Taxation of workers**

The income tax rate is calculated in brackets according to the Tax Value Unit (UVT). A personal deduction exists up to 1 090 UVT. The tax on income between 1 091 UVT and 1 700 UVT is 19%; it is 28% on UVTs between 1 701 and 4 100; and 33% on UVTs above 4 100. 1 UVT = COP 24 555.

### **Social security contributions paid by workers**

Contributions to the pension system equal 16% of the base contribution income; the employer pays 12 percentage points and the worker pays the remaining 4 percentage points.

Under the RPM, the contribution rate to the pension system is comprised of: 13 percentage points for old-age pension and 3%points for administrative costs and insurance premiums.

In the RAIS, the contribution rate to the pension system is distributed as follows: 11.5 percentage points to the individual account, 3 percentage points for administrative costs and insurance premiums; 1.5 percentage points for the Minimum Pension Guarantee Fund, which provides the source of funds to complement the pensions of those who meet both the age and contribution requirements to receive a minimum pension but have not accumulated enough resources.

The RAIS workers with incomes greater than four times the minimum wage contribute an additional 1% of their base contribution rate. Workers with incomes greater than 16 times the minimum wage contribute an additional 0.2% and 1% on top of the abovementioned 1%, which are allocated to the Solidarity Fund.

The minimum contribution income is equal to the legal minimum wage in effect, and the maximum base contribution income for the purpose of calculation of benefits is 25 times the legal minimum wage in effect.

The legal monthly minimum wage for 2010 was COP 515 000.

The monthly contribution to the health system is 4% of the base contribution income.

### **Taxation of pensioners**

Retirement, disability, and old-age pensions and survivor benefits for work-related injuries are taxed as income on the portion of the monthly payment above 1 000 UVT.

### **Social security contributions paid by pensioners**

Pensioners contribute to the social insurance system for health care. If their pension is above ten times the minimum wage in effect, they also contribute to the Solidarity Pension Fund.

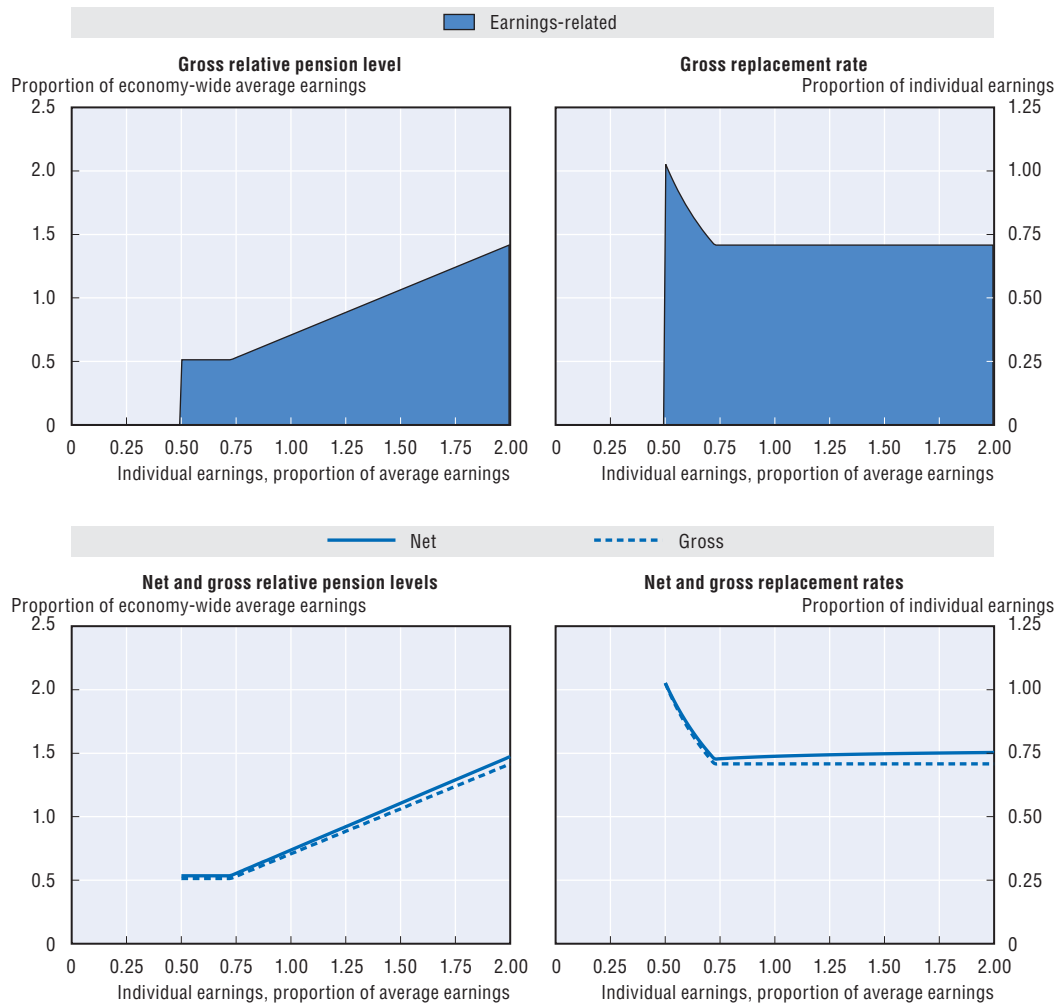
Pensioners' monthly contribution to the health care system is 12% of the income.

## Social assistance


The Social Assistance Programme for Old-Age Population (PPSAM) is aimed at protecting the needy elderly against the economic risk of not earning incomes and against social exclusion. This programme provides an average monthly benefit of COP 62 000.

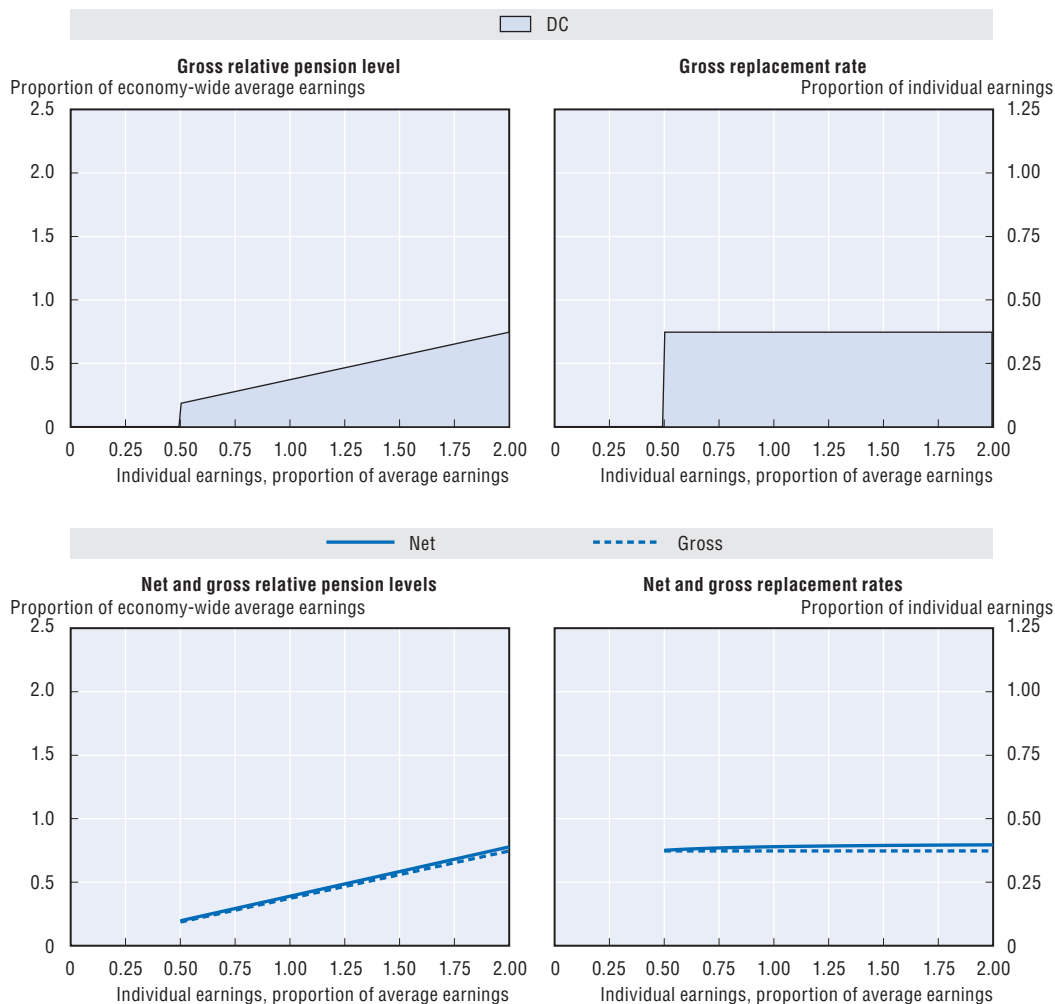
Additionally, there is a supplementary food benefit for the elderly (Juan Luis Londoño de la Cuesta) equivalent to 30% of the recommended daily caloric and nutritional intake. Currently, this food supplement is being converted to a cash transfer.

### Pension modelling results: Colombia (Public pension system)




Men	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1.0	1.5	2.0
Women (where different)						
Gross relative pension level	57.4	51.3	53.1	70.8	106.2	141.6
(% average gross earnings)	51.9		51.3	64.1	96.1	128.2
Net relative pension level	59.8	53.5	55.4	73.8	110.6	147.4
(% net average earnings)	54.1		53.5	66.8	100.1	133.4
Gross replacement rate	70.8	102.6	70.8	70.8	70.8	70.8
(% individual gross earnings)	64.1		68.4	64.1	64.1	64.1
Net replacement rate	73.1	102.7	72.8	73.8	74.8	75.3
(% individual net earnings)	66.2		70.3	66.8	67.6	68.2
Gross pension wealth	12.2	17.6	12.2	12.2	12.2	12.2
(multiple of individual gross earnings)	13.8	22.1	14.8	13.8	13.8	13.8
Net pension wealth	8.2	11.8	8.2	8.2	8.2	8.2
(multiple of individual gross earnings)	9.3	14.9	9.9	9.3	9.3	9.3

StatLink  <http://dx.doi.org/10.1787/888933161645>

**Pension modelling results: Colombia (Private pension system)**

Men	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1.0	1.5	2.0
Women (where different)						
Gross relative pension level	30.2	18.7	28.0	37.3	56.0	74.6
(% average gross earnings)	22.4	13.8	20.7	27.6	41.4	55.3
Net relative pension level	31.6	19.6	29.3	39.0	58.4	77.8
(% net average earnings)	23.4	14.5	21.7	28.9	43.3	57.6
Gross replacement rate	37.3	37.3	37.3	37.3	37.3	37.3
(% individual gross earnings)	27.6	27.6	27.6	27.6	27.6	27.6
Net replacement rate	38.6	37.6	38.5	39.0	39.5	39.7
(% individual net earnings)	28.6	27.9	28.6	28.9	29.2	29.4
Gross pension wealth	6.4	6.4	6.4	6.4	6.4	6.4
(multiple of individual gross earnings)	6.0	6.0	6.0	6.0	6.0	6.0
Net pension wealth	4.3	4.3	4.3	4.3	4.3	4.3
(multiple of individual gross earnings)	4.0	4.0	4.0	4.0	4.0	4.0

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