

Panama

Panama: Pension system in 2010

The pension system is a mixed system, consisting of a pay-as-you-go defined-benefit scheme and a mandatory system based on individual savings accounts.

Key indicators

		Panama	LAC26
Average income	PAB	7 600	7 000
	USD	7 600	7 000
Public pension spending	% of GDP	4.9	3.1
Life expectancy	At birth	77.6	73.6
	At age 65	20.0	17.4
Population over age 65	% of working-age population	12.7	12.3

Qualifying conditions

The retirement age for men is 62 and 57 for women, if they have a contribution record of at least 18 years (20 years from 2013). Early retirement is possible from age 60 for men and 44 for women if they have a contribution record of at least 15 years.

A partial pension is paid at age 62 for men and 57 for women if they have a contribution record of between 180 and 215 months, or 239 months starting in 2013.

Under the defined-benefit scheme, there is an old-age settlement, paid at the regular retirement age when the insured does not meet the contribution requirement for an old-age pension.

If the insured is not able to meet the requirements for an old-age pension, he/she can request reimbursement of the entire amount saved in his account plus accrued interest, in a lump sum, upon reaching the reference age for retirement.

For the insured who retire when they have reached or exceeded the reference age without having made the required number of contributions, and who have at least 80 contributions, the following calculation will be applied to determine the replacement rate: 60% of the monthly earnings for benefit calculation purposes, to which the limits considered for the minimum and maximum pension amounts for an old-age pension will be applied. The result of this equation is multiplied by the factor resulting from the division of the number of contributions made by the number of contributions needed to qualify.

Benefit calculation

Old-age pension exclusively under the defined-benefit subsystem

The pension is 60% of the average of the best ten years of earnings (not adjusted), plus 1.25% of earnings for every 12 months of contributions beyond 216 months (240 months starting in 2013). Two percent of the monthly earnings for benefit calculation purposes is added for every 12 contributions, if they are contributed after having reached the reference age and exceed the reference number of contributions.

Partial pensions are equal to 60% of the average of the ten best years of earnings, multiplied by the number of months of contribution and divided by 216 (or 240 starting in 2013).

The average base salary corresponds to the seven best years of contributions up to 31 December 2009 or the ten best years of contributions from 1 January 2010.

The minimum monthly pension is PAB 185.

The maximum monthly pension is PAB 1 500.

There are some maximum monthly pensions of PAB 2 000.00 and PAB 2 500.00 if the insured meets some specific requirements:

For the insured who has at least 25 years of contributions and average monthly earnings of at least PAB 2 000.00 in the 15 best years in which he/she made contributions, the pension can be as much as PAB 2 000.00 per month.

For the insured who has at least 30 years of contributions and average monthly earnings of at least PAB 2 500.00 in the 20 best years in which he/she made contributions, the pension can be as much as PAB 2 500.00 per month.

Benefits are adjusted on an ad hoc basis depending on the economic situation in the country or as established by law. Beginning in 2013 the minimum pension (PAB 235) will be increased by PAB 10 per month every five years.

Old-age pension under the mixed subsystem

The defined-benefit component grants participating insured people benefits for disability, old age and death, under the same requirements established by the Exclusively Defined-Benefit Subsystem, up to the maximum amount established on monthly contributions of PAB 500.00.

The individual account component is for insured people whose earnings are greater than PAB 500.00 per month. Those contributions participate in the personal savings component, which grants a retirement pension contributed and capitalised in a savings account, as long as it complies with the contribution and age requirements established in the defined-benefit component. The amount is determined as a programmed old-age retirement pension, dividing the total amount saved and the accrued interest in the individual account at the time the pension begins by the actuarial life expectancy, considered according to the corresponding discount rate on that date. The payment of this pension is guaranteed through a collective annuity, whose cost is prorated among the participants in this component and deducted from the contributions to this subsystem.

Old-age settlement-Compensation (only the defined-benefit subsystem)

A lump sum equivalent to one month of old-age pension for every six months of contributions is granted.

Old-age settlement (mixed subsystem)

This is a lump-sum payment equivalent to the savings and interest accumulated in the individual account.

Variant careers

Early retirement

A reduced pension can be granted, equal to the old-age pension multiplied by 0.9128 one year before the normal retirement age or by 0.8342 two years before the normal retirement age.

Late retirement

Deferral gives an additional payment of 2% of earnings for every 12 months of contributions beyond the normal retirement age.

Personal income tax and social security contributions

Taxation of workers

There is personal allowance of PAB 9 500. Income up to PAB 2 500 is taxed at 20.5%; between PAB 2 500 and PAB 5 500 at 21.5%; between PAB 5 500 and PAB 10 500 at 23%; between PAB 10 500 and PAB 20 500 at 24%; and above PAB 20 500 at 27%.

Social security contributions paid by workers

Contributions of the first PAB 500.00 finance the annuity and defined-benefit scheme. The rest (above PAB 500.00) is accumulated in the individual savings account.

Contributions to the disability, old age and death scheme

Percentage

	Employee contributions	Employer contributions to the IVM (disability, old age or death)	Total to IVM
From 2008 to 2010	7.5	3.5	11.0
From 2011 to 2012	8.5	4.0	12.5
2013 and beyond	9.25	4.25	13.5

The minimum earnings for contribution calculation purposes is equal to the legal monthly minimum wage – PAB 235.00 – for household workers; PAB 300 for insured through voluntary contributions.

There is no maximum earnings for contribution calculation purposes.

In addition to the contributions to IVM (disability, old age or death), both the employer and the employee contribute to the sickness and maternity scheme, as shown in the following table:

Percentage contribution

Percentage

	2010	2011	2012	2013 →
Worker	8.00	9.00	9.00	9.75
IVM	7.50	8.50	8.50	9.25
Sickness and maternity	0.50	0.50	0.50	0.50
Employer	11.75	12.00	12.00	12.25
IVM	3.50	4.00	4.00	4.25
Sickness and maternity	8.25	8.00	8.00	8.00
Total	19.75	21.00	21.00	22.00
IVM	11.00	12.50	12.50	13.50
Sickness and maternity	8.75	8.50	8.50	8.50

The law requires the state to make a yearly deposit into a trust fund for the disability, old-age and death scheme (IVM), to contribute to the sustainability of the scheme, the amount of PAB 100 million each year (in 2010, 2011 and 2012) and PAB 140 million each year (starting in 2013 up to 2060).

Taxation of pensioners

Pensions are not taxed.

Social security contributions paid by pensioners

Pensioners contribute 6.75% of the gross monthly amount of their pensions to Sickness and Maternity Insurance.

Old-age pensioners receiving pensions from the Social Security Fund (CSS) who continue to work, contribute to disability, old-age and death insurance at the same contribution rates as the “active contributing insured”. This contribution does not modify the amount of their pensions.

Social assistance programmes for old-age population**Social pension**

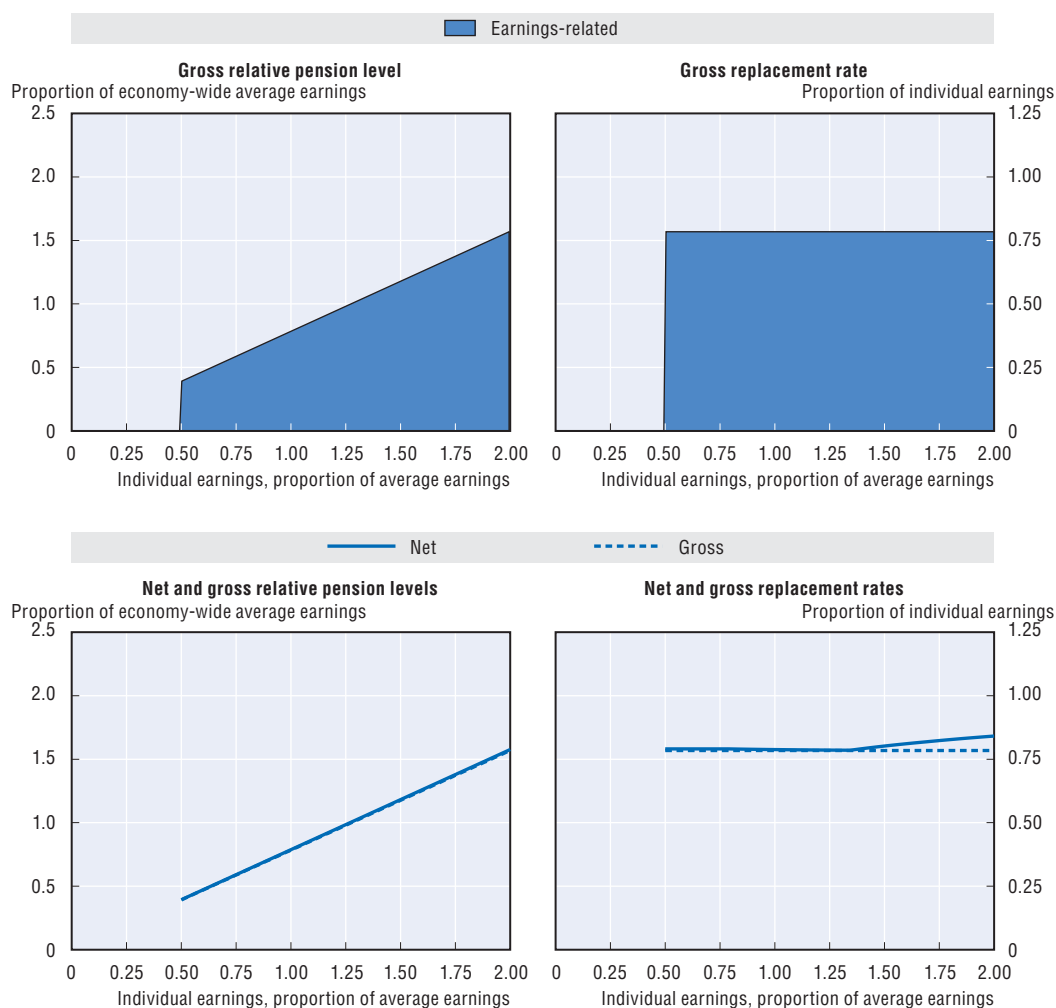
Beginning from 4 August 2009 people over age 70 who do not receive a pension from the CSS receive a monthly payment of PAB 100.00. This non-contributory allowance is known as “100 at 70”.

Additional programmes


Pension for seasonal agricultural and construction workers: Starting in 2008, agricultural or construction workers, whose history of contributions to the CSS is low and who have, upon reaching the reference age have at least 120 contributions but who have not reached 180 contributions, can request that the sum total of earnings on which they made contributions be computed each year as if they had been contributed in a period of 12 months, as long as the total amount contributed does not exceed PAB 3 500.00 annually.

Once it has made the calculation described above, the CSS will recognise an old-age pension equal to 60% of the base earnings in effect when the worker retires, multiplied by a factor equal to all of the contributions divided by the reference contribution. This pension has no minimum amount.

Pension modelling results: Panama



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	63.5	39.2	58.8	78.4	117.6	156.9
(% average gross earnings)	59.0	36.4	54.6	72.8	109.2	145.7
Net relative pension level	63.8	39.4	59.1	78.8	118.2	157.6
(% net average earnings)	59.3	36.6	54.9	73.2	109.8	146.3
Gross replacement rate	78.4	78.4	78.4	78.4	78.4	78.4
(% individual gross earnings)	72.8	72.8	72.8	72.8	72.8	72.8
Net replacement rate	79.0	79.1	79.1	78.8	80.2	84.1
(% individual net earnings)	73.4	73.4	73.4	73.2	74.5	78.1
Gross pension wealth	13.8	13.8	13.8	13.8	13.8	13.8
(multiple of individual gross earnings)	15.0	15.0	15.0	15.0	15.0	15.0
Net pension wealth	13.8	13.8	13.8	13.8	13.8	13.8
(multiple of individual gross earnings)	14.0	14.0	14.0	14.0	14.0	14.0

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