

Paraguay

Paraguay: Pension system in 2010

The pension system in Paraguay consists of a pay-as-you-go system and an earnings-related defined-benefit system.

Key indicators

		Paraguay	LAC26
Average annual income	PYG (million)	18.3	32.1
	USD	4 000	7 000
Public pension spending	% of GDP	2.8	3.1
Life expectancy	At birth	72.3	73.6
	At age 65	17.1	17.4
Population over age 65	% of working-age population	10.4	12.3

Qualifying conditions

The retirement age for both men and women is 60, with a record of at least 25 years of contributions.

Benefit calculation

Old-age pension

The monthly retirement pension is equal to 100% of the average earnings for contribution calculation purposes.

There is also a proportional retirement granted with 15 years of seniority and 65 years of age, with a substitution rate of 60%, which increases by 4% for each year of age beyond 15 years of seniority.

The average earnings for contribution calculation purposes is based on the last 36 months of earnings (excluding the last month) before retirement.

The minimum monthly pension is PYG 300 000, which was established by the General Budget Law (PGN) and was not an entitlement. In 2012, the minimum retirement pension amount was adjusted to 33% of the legal minimum wage: PYG 547 217.

The maximum monthly old-age retirement pension is 300 times the daily minimum wage. (The minimum monthly salary is equal to PYG 1 507 484 in 2010. In 2012, the minimum salary was PYG 1 658 232.)

All income-generating activity must cease after retirement age.

Pensions are paid monthly, plus a bonus (Annual Additional Benefit) in December equivalent to one month of retirement pension. This is not an entitlement, as the law states that it is subject to the financial and actuarial viability of the Retirement Fund.

Benefits are adjusted annually according to the consumer price index published by the Central Bank of Paraguay.

Variant careers

Early retirement

Early retirement can be claimed at 55 years of age (both men and women), with a record of at least 30 years of contributions.

The monthly early retirement pension is equal to 80% of the average earnings for contribution calculation purposes plus 4% of the annual earnings for every year over 55 up to 59.

Late retirement

Once an insured person has reached the age and seniority required to qualify for an ordinary pension, they will receive 100% of the average of the last 36 months. There is no advantage to contributing for more than the required amount of time.

Personal income tax and social security contributions

Taxation of workers

The personal income tax (IRP) was introduced in August 2012. Workers pay tax as well as make the contributions that all dependent workers are required to make to the social security system.

Starting in 2012, independent or self-employed workers who are not covered by the social security system will have to pay IRP and value-added taxes (VAT).

The IRP establish the following:

0 to 36 annual minimum wages	Exempt
More than 36 up to 120	8%
More than 120	10%
On 50% of the earnings paid to those who do not reside in the country but who earn income in Paraguay	20%

For the first year that this law is in effect, the range not affected will be up to 120 annual minimum wages and will diminish until it reaches 36 annual minimum wages.

In 2012, the only contributors will be those people whose gross earnings are above 120 minimum wages (PYG 198 million). For the second year that this law is in effect, (2013), only those persons whose gross earnings are above nine monthly minimum wages, or 108 per year, and so on.

2012	More than 120 minimum wages in the year
2013	More than 9 monthly minimum wages or 108/year
2014	More than 8 monthly minimum wages or 96/year
2015	More than 7 monthly minimum wages or 84/year
2016	More than 6 monthly minimum wages or 72/year
2017	More than 5 monthly minimum wages or 60/year
2018	More than 4 monthly minimum wages or 48/year
2019	More than 3 monthly minimum wages or 36/year

Social security contributions paid by workers

Contributions to social security are equal to 9% of gross earnings. The minimum monthly earnings for the purpose of calculating contributions is equal to the monthly minimum wage. The monthly minimum wage was PYG 1 507 474 in 2010, and was PYG 1 658 232 in 2012. There is no maximum level of earnings for contribution calculation purposes. The contributions to the insurance system described above cover health, maternity, workmen's compensation, and old-age benefits.

Employers contribute 14% of employees' earnings. The sum of the employer and employee contributions is 23%, of which 9 percentage points goes to health insurance, 12.5 percentage points to retirement, and an additional 1.5 percentage point to cover management and administration fees.

By law, the state must pay 1.5% of the payroll paid by employers to private sector workers.

Taxation of pensioners

Retirement income is not taxed.

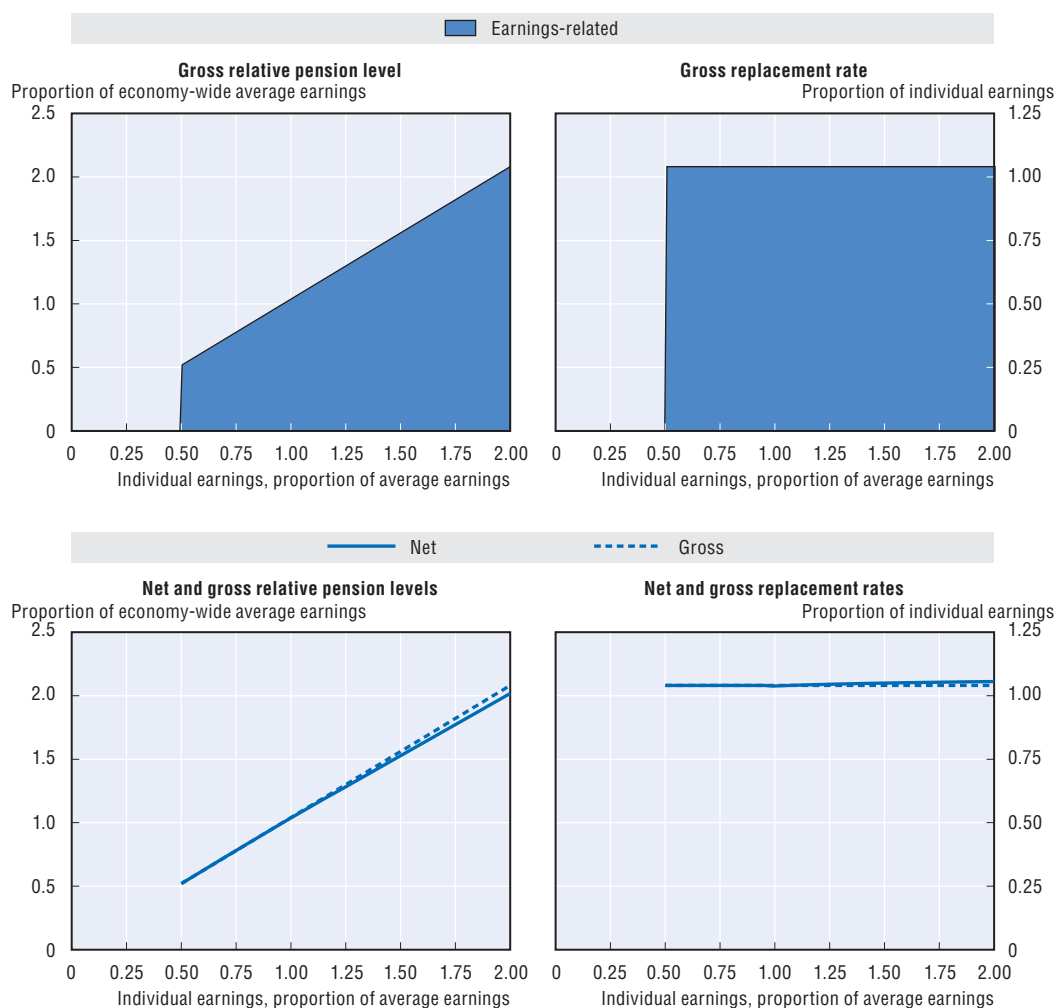
Social security contributions paid by pensioners

Pensioners contribute 6% of their pension income for health insurance in the IPS.


Social assistance programme for the old-age population

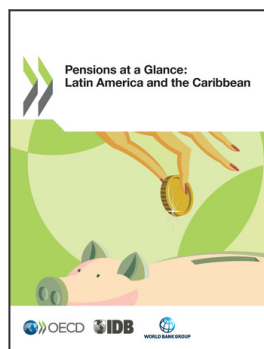
Elderly in need can receive a pension for food administered by the Ministry of Finance. This pension is not less than one-quarter of the minimum wage. All natural-born Paraguayans aged 65 or older who are poor and who reside in Paraguay are eligible to receive this assistance. The amount in 2010 was PGY 376 871. Those who have outstanding debts to the state, who receive payments from the public or private sectors including salaries, retirement, pension and/or social security, are not eligible for this benefit.

Pension modelling results: Paraguay



Men	Median earner	Individual earnings, multiple of average				
Women (where different)		0.5	0.75	1.0	1.5	2.0
Gross relative pension level (% average gross earnings)	84.3	52.0	78.0	104.1	156.1	208.1
Net relative pension level (% net average earnings)	84.4	52.1	78.1	103.8	152.8	201.7
Gross replacement rate (% individual gross earnings)	104.1	104.1	104.1	104.1	104.1	104.1
Net replacement rate (% individual net earnings)	104.1	104.1	104.1	104.1	104.1	104.6
Gross pension wealth (multiple of individual gross earnings)	18.5 20.0	18.5 20.0	18.5 20.0	18.5 20.0	18.5 20.0	18.5 20.0
Net pension wealth (multiple of individual gross earnings)	18.5 20.0	18.5 20.0	18.5 20.0	18.5 19.9	18.5 19.5	18.5 19.4

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