

Costa Rica

Costa Rica: Pension system in 2020

The Costa Rican pension system is multi-tiered. Basic coverage is provided a contributory, earnings related public pension. Supplementary coverage is provided through a mandatory savings program based on individual accounts - while voluntary DC Personal Pensions are available to those who want them. A social assistance program provides a means tested minimum income guarantee.

Key indicators: Costa Rica

		Turkey	OECD
Average worker earnings (AW)	CRC (million)	9.4	22.9
	USD	16 003	39 178
Public pension spending	% of GDP	4.9	7.7
Life expectancy	at birth	80.0	80.6
	at age 65	20.1	19.7
Population over age 65	% of working- age population	16.6	30.4

Qualifying conditions

In the IVM, employees are entitled to retire with an old-age pension at age of 65 if they have at least 300 months of contributions.

Anyone who has not made 300 contributions can elect to receive a proportional pension, if they have made at least 180 contributions to the disability, old age and survivors' pension system, and are at least 65 years of age. In this case, the amount of the proportional pension is calculated as the amount of the corresponding old-age pension multiplied by the number of contributions, divided by 300. For those who have made 300 contributions but have not reached the retirement age of 60 for women and 62 for men, the amount of the pension will be reduced proportionally.

Pension Scheme financed from the National Budget is administered by the National Directorate of Pensions (DNP). According to Law N ° 9380, active employees and pensioners are obliged to contribute monthly between 9% and 16% of the amount of salary or pension, according to the following table:

Salary or pension level	% of contribution
Up to 3 SBMB*	9%
Between 3 and 4 SBMB*	13%
About the excess of 4 SBMB*	16%

*SBMB Lowest base salary in public administration (Salario base más bajo de la administración pública).
SBMB = CRC 287 000

The benefits of the ROP are obtained when the member presented to the pension administrator a certification that he has complied with the pension requirements of the IVM Scheme or of the substitute public scheme to which you have belonged.

The benefits derived from the Voluntary Regime are enjoyed in accordance with the contracts, but not before the beneficiary reaches 57 years of age, except in the case of disability or terminal illness, qualified by the CCSS or in the event of death.

Special Occupational Schemes cover workers in particular public institutions – i.e. a number of state-owned banks, the national oil company (closed), the Social Security agency (CCSS), the national power company and the national tourism agency. Also, a small scheme for lottery ticket sellers exist. Some special occupational schemes are DC while others are DB schemes sponsored by employer and employee

contributions. Contribution rates, accrual principles, pension age and pay-out regulations are defined in separate legislation and in the statutes of the schemes. This regulation has not been available to this assessment and it has not been possible to assess the links between contributions and benefits and the long-term financial sustainability of DB Special Occupational Schemes. For workers covered by a Special Occupational Scheme, the employer ROP contribution is lower – 2.75% instead of 4.25% - as employers are exempt from the 1.5% ROP contribution (see above).

Benefit calculation

Earnings-related

In IVM the amount of the disability or old-age pension includes a basic amount representing a percentage of the average salary for the first 20 years of contributions (240 contributions). The earnings bracket of the insured is calculated as the average earnings in the last 60 months in which contributions were made, adjusted for inflation. A calculation is applied to this reference salary according to the replacement rate of the person's earnings level (43-52.5% decreasing by wage level). The additional rate for each month contributed is 0.0833% after 240 months.

The minimum monthly base contribution wage for the IVM (disability, old age or death) benefits is CRC 278 030. There is no maximum base contribution wage for the purpose of calculating benefits.

Disability and survivor's benefits are paid by the public system. Benefits can be taken as indexed annuities or programmed retirement.

Since 2019, the minimum pension was CRC 136 865 and the maximum pension was CRC 1 612 851 (with no delay) and CRC 2 282 184 (for late retirement). Payments are made 13 times a year. Pensions are indexed to consumer prices.

Pension Scheme financed from the National Budget has a cap on new pensions of 10 salaries (SBMB).

Targeted

The minimum contributory pension is approximately 30% of the average base contribution wage, while the non-contributory pension is approximately 20% of the average wage.

Defined-contribution

The value of the pension depends on the contributions made by the insured plus the accumulated interest. The insured can choose to receive the pension as an annuity or under a programmed retirement scheme.

Social welfare pension

There is a non-contributory basic pension (RNC) for people aged 65 and over for disability or survival that does not fall within the contributory regimes and is only for the needy. The amount of the benefit is CRC 82 000 per month, for 13th payments, additionally the cost of the public health insurance service is paid (the “*Seguro de enfermedad y maternidad*”, equals 14.25% the amount of the pension). This program is managed by the CCSS and financed with resources from the Social Development and Family Assistance Fund and certain specific taxes

Variant careers

Early retirement

Those insured that opt for early retirement must cover the missing contributions when they retire.

In order to draw a full pension and retire early, the insured must meet the requirements of both age and number of contributions.

Late retirement

Insured persons who meet the requirements for the old-age pension have the right to an additional pension if they delay retirement, starting from the date on which the legal and regulatory requirements were met, with no age limit. This additional pension consists of 0.1333% per month (1.6% annually) over the average reference wage. The amount of the additional pension for delaying retirement added to the amount of the calculated pension must not exceed 125% of the salary.

Childcare

Maternity leave includes a period of 4 months, one month before giving birth and three months after birth.

Maternity leave should not affect pensions because contributions to pension schemes are made on 100% of salary.

Unemployment

There is no coverage for unemployment by the IVM and alternative regimes.

However, there is the Labor Capitalization Fund (FCL), an individual capitalization fund administered by pension operators, which is made up of 1.5% of the worker's monthly salary. The worker or his successors in title will have the right to withdraw the accumulated labor savings, in the event of:

- a) The employment relationship is terminated, for any reason.
- b) In case of death.
- c) During the employment relationship, the worker will have the right to withdraw the labor savings every five years.
- d) In the event of temporary suspension of the employment relationship, or when a reduction of the ordinary working day of the worker is applied, which implies a decrease in their salary.

Self-employed

The self-employed are covered by general social security system: the Disability, Old Age and Death Regime run by the CCSS (RIVM by its acronym in Spanish). The self-employed contribute between 6.72% and 18.78% on the gross income (before paying health and pension contributions)

For self-employed workers whose net income is less than the legal minimum wage and who request their affiliation to the Disability, Old Age and Death Regime of the CCSS, the State contribution will be increased in order to partially correct the absence of the employer contribution.

Benefits: access to medical and surgical services in clinics and hospitals in the country, receive payments for disability subsidies or maternity, contribute mandatory to the pension scheme, so that, you get pension for disability or old age and protects beneficiaries in the event of death. Also, can receive financial help for the purchase of prostheses, glasses, and funeral expenses.

Personal income tax and social security contributions

Taxation of pensioners

Pensions are taxable using the same scale that applies to workers' earnings.

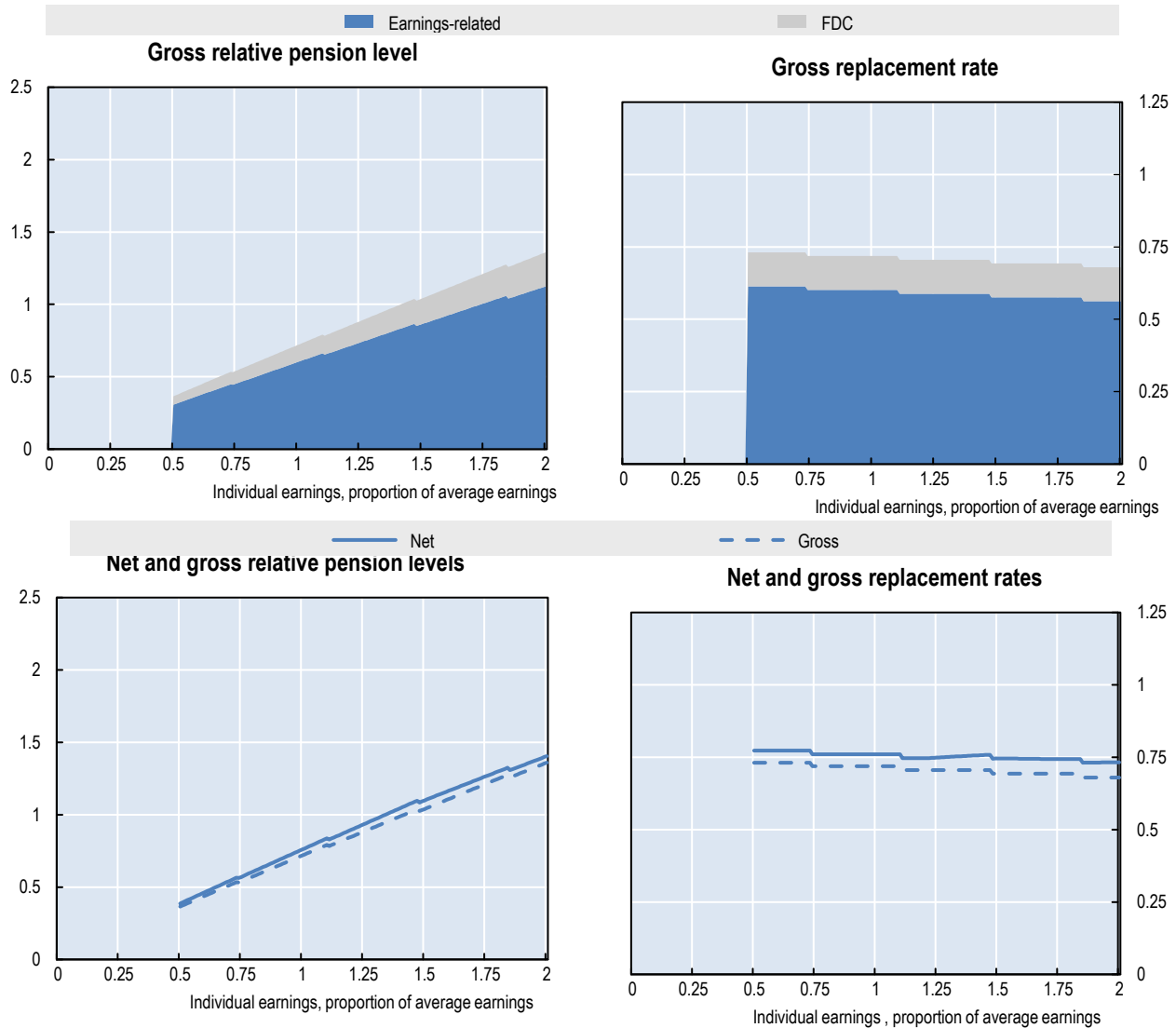
Taxation of pension income

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Social security contributions paid by pensioners

The cost of social security insurance for pensioners receiving disability, old age and death scheme is covered entirely by the Disability, Old and Death Pension Fund. Pensioners under this scheme do not contribute to social security.

Pension modelling results: Costa Rica in 2063 retirement at age 65



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	36.5	53.9	71.9	103.9	136.0	196.1
Net relative pension level (% net average earnings)	38.6	57.0	76.0	109.9	140.5	195.5
Gross replacement rate (% individual gross earnings)	73.1	71.9	71.9	69.3	68.0	65.4
Net replacement rate (% individual net earnings)	77.3	76.0	76.0	74.6	73.2	70.3
Gross pension wealth (multiple of individual gross earnings)	13.5	13.3	13.3	12.8	12.6	12.1
Net pension wealth (multiple of individual net earnings)	14.7	14.5	14.5	13.9	13.7	13.1
Net pension wealth (multiple of individual net earnings)	14.3	14.0	14.0	13.8	13.5	13.0
Net pension wealth (multiple of individual net earnings)	15.5	15.3	15.3	15.0	14.7	14.1

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2020. Tax system latest available: 2020.