

# Pensions at a Glance 2023



# Colombia

## Colombia: Pension system in 2022

The system allows people to choose between a defined-benefit scheme (Regimen de Prima Media-RPM) managed by a public sector entity, and a defined-contributions scheme (Regimen de Ahorro Individual con Solidaridad-RAIS) managed by various entities of the private sector.

### Key Indicators: Colombia

		Colombia	OECD
Average worker earnings (AW)	COP (million)	18.9	175.6
	USD	4 443	41 261
Public pension spending	% of GDP	5.7	7.7
Life expectancy	at birth	73.7	80.7
	at age 65	81.3	84.6
Population over age 65	% of working-age population	14.5	31.3

## Qualifying conditions

The Colombian General Pension System seeks to protect the population against the contingencies arising from old age, disability and death, by recognising pensions and benefits established in the existing schemes and is financed by contributions from its members and their employers. It is divided into two schemes:

1. Defined-benefit System of Average Premiums (Régimen de Prima Media-RPM). The retirement age is currently 62 for men and 57 for woman, with 1 300 weeks of contributions.

Affiliates of the RPM have the option of receiving alternative compensation (called Indemnización Sustitutiva), if they have not contributed the minimum number of weeks required, or they are unable to continue contributing, when having reached the eligibility age for an old-age pension.

The replacement rate applicable to the pension starts at 55% - 65% of the Base Settlement Income and reaches a maximum of 70.5% - 80%, depending on the number of weeks of contribution and the contribution base on which contributions are made to the General Pension System, in such a way that the greater the number of weeks of contribution, the higher the replacement rate; while the higher the contribution base in terms of minimum wages, the lower the replacement rate that will be applied at the time of recognition of the pension.

2. System of Individual Savings with Welfare Benefit (Régimen de Ahorro Individual con Solidaridad-RAIS). Administered by Private Pension Funds, this scheme is not subject to the fulfilment of a certain number of weeks of contributions, nor to the fulfilment of a previously determined age. Rather, the right to a pension is obtained based on the accumulated capital in the member's individual account, and he/she must have at least enough savings to finance a pension equivalent to 110% of the legal minimum wage in force.

Those who meet the age (62 for men and 57 for woman) and 1 150 weeks of contribution requirements but do not have savings high enough to retire, may access the Minimum Pension Guarantee Fund. This fund grants access to a minimum legal wage pension.

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

## Benefit calculation

### ***Earnings-related***

Pension benefits for the defined-benefit system vary between 55% and 65% of the average contribution base wage in the last ten years, revaluated for inflation. (The formula for estimating the per cent 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; plus 1.5% for each additional period of 50 weeks of contributions up to a maximum of 80%).

### ***Minimum pension***

The minimum pension is equal to the legal minimum wage. Pension benefits are paid 13 times a year. Pension 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.

Members can switch between systems every five years, up to ten years before reaching retirement age.

### ***Alternate compensation***

RPM- The alternative compensation (called Indemnización Sustitutiva) 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.

RAIS- The affiliate receives a balance refund, meaning the savings plus earnings.

## Variant careers

### ***Early retirement***

RPM - Early retirement is generally not possible. There are two exceptions for individuals with disabilities (early old-age disability pension) and early pension for male or female heads of household with responsibility for the care of disabled children.

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.

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### ***Late retirement***

RPM - Late retirement is possible under the public pension system. (Until the moment the member completes the minimum weeks to retire or increase in the replacement rate for additional weeks of contribution).

RAIS - It is possible until the member accumulates enough capital to retire or the minimum weeks to obtain GPM (Minimum Pension Guarantee).

### ***Childcare***

There is a special pension for parents that must take care of economically dependent disabled children. This benefit makes it possible to obtain the pension at an earlier age, as long as the minimum number of weeks, i.e. 1 300, is met.

This benefit is lost if the parents re-enter the workforce.

### ***Unemployment***

The Solidarity Fund for the Promotion of Employment and Protection of the Unemployed (FOSFEC for its Spanish acronym), administered by Cajas de Compensación Familiar (family compensation funds) grants the unemployed population their contribution to the health and pension social security systems, calculated on one (1) monthly legal minimum wage.

To obtain this benefit, the unemployed person must have made a minimum contribution to the Caja de Compensación Familiar during the three years prior to becoming unemployed. The minimum contribution time for dependent workers is one (1) year while for the independent workers is two (2) years. In both cases, the contributions may have been made on a continuous or non-continuous basis.

### ***Self-employed***

The self-employed are mandatorily covered by the same schemes (RPM and RAIS) as employees, at the same contribution rates. The mandatory contribution base for the self-employed is the maximum of the 40% of the average earnings subject to pension contribution and the minimum wage.

## **Personal income tax and social security contributions**

### ***Taxation of pensioners***

There are no special rules for pensioners.

### ***Taxation of pension income***

The sum of mandatory (public or private) and voluntary pension income is exempt from income tax unless the aggregate monthly benefits are over 1 000 UVT<sup>1</sup> (Article 206-5, Colombian Tax Code).

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<sup>1</sup> UVT in Colombia is the Tax Value Unit. The UVT is the measure equivalent to COP used to determine different tax obligations, such as the minimum amounts of withholding tax or penalties. This value is readjusted annually according to the variation of the consumer price index for average income.

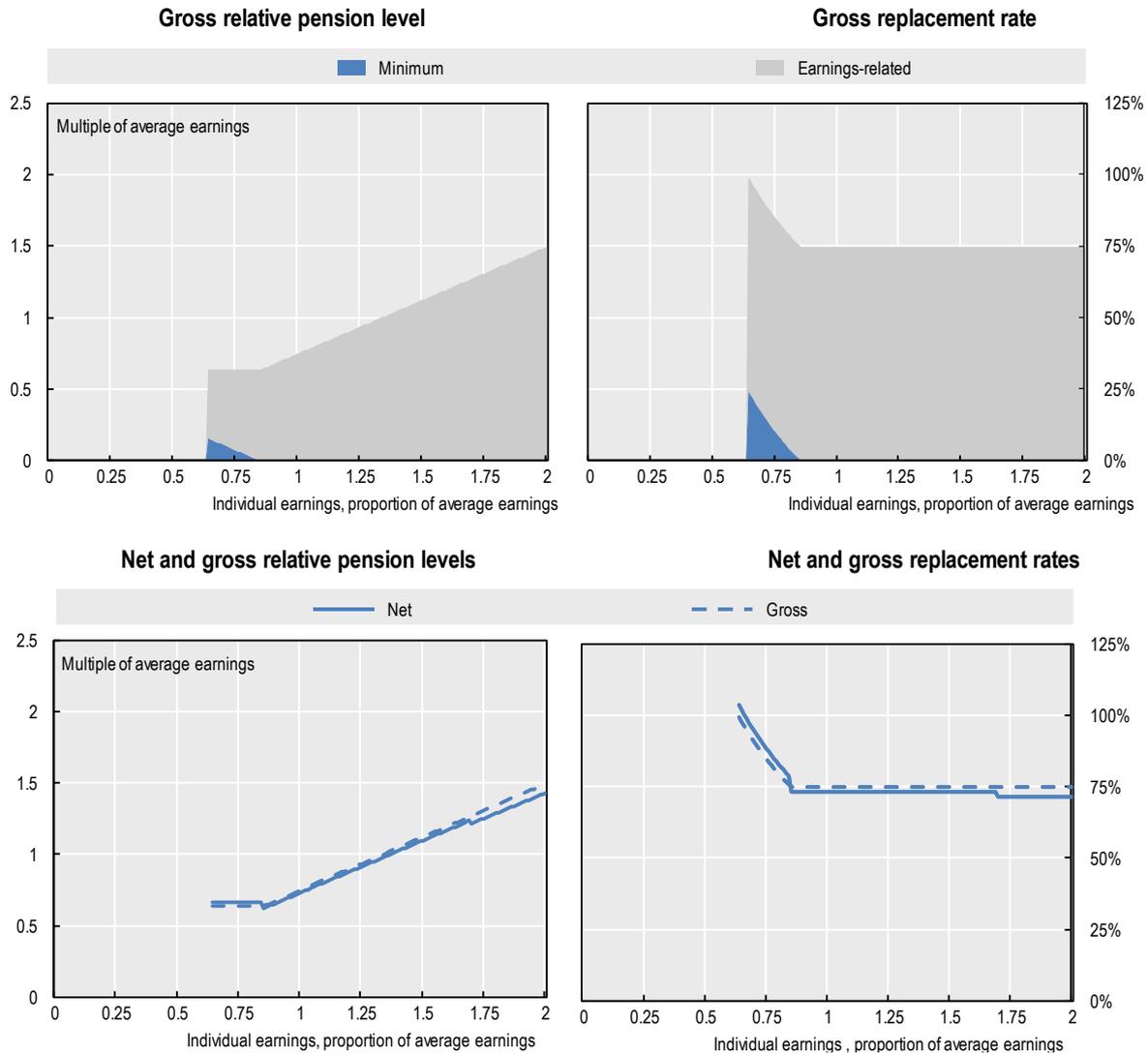
***Social security contributions paid by pensioners***

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 as follows:

For those who receive one (1) monthly legal minimum salary, the contribution is 4%. On the other hand, those who earn between one (1) and two (2) monthly legal minimum wages in force, the contribution is 10%, and for those who earn more than (2) current legal monthly minimum wages, the contribution is 12% (paragraph 5, Article 204, Law 100 of 1993).

Pension modelling results: Colombia in 2065 retirement at age 65 (men)



Men Women (where different)	Individual earnings, multiple of average					
	0.64	0.75	1	1.5	2	3
Gross relative pension level	63.5	63.5	74.8	112.1	149.5	224.3
(% average gross earnings)				111.4	147.7	220.1
Net relative pension level	66.2	66.2	73.1	109.7	143.0	214.5
(% net average earnings)				109.0	141.2	210.5
Gross replacement rate	99.2	84.6	74.8	74.8	74.8	74.8
(% individual gross earnings)				74.3	73.8	73.4
Net replacement rate	103.5	88.3	73.1	73.1	71.5	71.9
(% individual net earnings)				72.7	70.6	70.4
Gross pension wealth	23.6	20.1	15.2	15.2	15.2	15.2
(multiple of individual gross earnings)	30.3	25.9	22.9	22.7	22.6	22.4
Net pension wealth	21.0	17.9	14.8	14.8	14.5	14.6
(multiple of individual net earnings)	26.0	22.2	18.4	18.2	17.7	17.7

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.