

# Colombia

## Colombia: Pension system in 2020

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

		Colombia	OECD
Average worker earnings (AW)	COP (million)	16.0	144.8
	USD	4 339	39 178
Public pension spending	% of GDP	5.9	7.7
Life expectancy	at birth	77.0	80.6
	at age 65	19.0	19.7
Population over age 65	% of working- age population	15.0	30.4

## Qualifying conditions

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:

**Defined-benefit System of Average Premiums (Régimen 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 minimum age to draw a pension is 62 for men and 57 for women, with 1 300 weeks of contributions.

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.

The replacement rate applicable to the pension starts at 65% - 55% of the Base Settlement Income and reaches a maximum of 80% - 70.5%, 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.

**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 on the basis of 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 and a minimum of 1 150 weeks of contributions.

Those who meet the age and 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.

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*

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, plus 1.5% for each additional period of 50 weeks of contributions up to a maximum of 80%. (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).

### *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.

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

### *Alternate compensation*

RPM- 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.

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.

### *Late retirement*

RPM - Late retirement is not possible under the public pension system. (Increase in the replacement rate for additional weeks of contribution).

RAIS - The employer is required to make the employer contributions until the worker reaches age 57 (women) or 62 (men).

### ***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.

There is no compensation for the time where no contribution is made due to childcare.

### ***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***

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 1090 UVT.<sup>1</sup> (Articles 337 and 241 of the Colombian Tax Code).

### ***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.

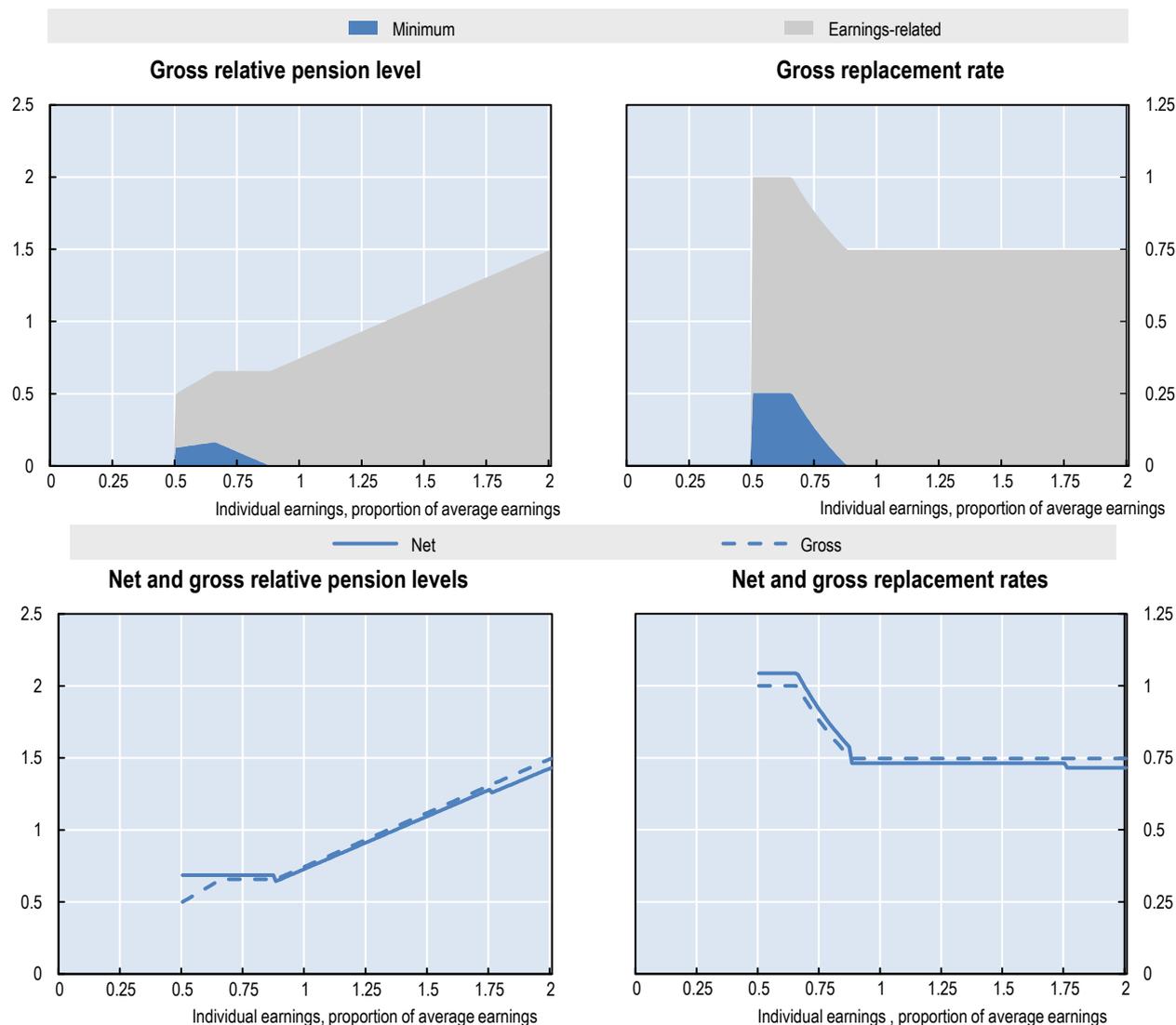
Pensioners' monthly contribution to the health care system is 12% of the income.

Since 2020, progressive discounts apply to the monthly health contribution for pensioners receiving up to two (2) monthly legal minimum wages. For those receiving one (1) monthly legal minimum wage, the contribution is of 8% for the 2020-2021 period and of 4% from 2022 onwards. On the other hand, those earning between one (1) and two (2) monthly legal minimum wages, the contribution is of 10% from 2020 onwards (Article 142 of law 2010 of 2019).

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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.

## Pension modelling results: Colombia 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)	50.0	65.7	74.8	112.1	149.5	224.3
Net relative pension level (% net average earnings)	68.6	68.6	73.1	109.7	143.0	214.5
Gross replacement rate (% individual gross earnings)	100.0	87.6	74.8	74.8	74.8	74.8
Net replacement rate (% individual net earnings)	104.3	91.4	73.1	73.1	71.5	71.6
Gross pension wealth (multiple of individual gross earnings)	19.1	16.8	14.3	14.3	14.3	14.3
Net pension wealth (multiple of individual net earnings)	20.0	17.5	14.0	14.0	13.7	13.7

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.