

Spotlight On Retirement

PERU



LATIN AMERICA RETIREMENT SERIES



Spotlight on Retirement: Peru

2019

Hernán Poblete Miranda

Associate Director, International Research
LIMRA and LOMA
+569 78454757
hpoblete@limra.com

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Executive Summary

Peru sits in western South America and is the fourth-largest in the region by population. At 32.97 million, up from the 2013 estimate of 30.4 million,¹ it follows only Brazil (204.5 million), Colombia (48.5 million), and Argentina (43.1 million).

Like the rest of the Latin American region, Peru is going through a demographic transition. Due to high levels of emigration, Peru's population dropped steadily from the 1960s until just a few years ago. Now, however, it is seeing some growth. Peru's population is replacing itself because the birth rate is higher than the death rate, and the fertility rate is 2.22. Its population is predicted to reach almost 42 million by 2050.² In fact, according to recent estimates, Peru could sustain an average growth rate of 5.5 percent for 40 years.

Despite reforms undertaken by the government, most of the population is not yet covered by comprehensive pensions that provide adequate replacement income. This lack of coverage may contribute to the medium-level ranking of the country in the Allianz Pension Sustainability Index.

The results of the present study show that about 62 percent of Peruvian consumers consider it their personal responsibility to finance their retirement. Among young workers, 35 percent stated that it is their responsibility to finance retirement.



Eighty-five percent of Peruvians say they will depend to some extent on their personal savings and investments. However, 45 percent regret delaying retirement savings or have not yet started saving. About 69 percent of consumers fear a gap in retirement funds when they turn age 60, and only 3 out of 10 Peruvians expect to have more than 81 percent of the funds needed to live a comfortable retired life. Despite this anticipated gap in retirement funds, most consumers do not seek the help of a financial professional with retirement planning.

A high percentage of consumers (76 percent) stated they are willing to convert a portion of their assets into annuities to generate retirement income. Even so, a high proportion of Peruvians (almost 7 out of 10) across all ages are concerned that they may have to continue to work after retirement.

Among their retirement aspirations, respondents listed maintaining physical health and well-being and finding a way to finance their final years when they may be completely dependent. This finding suggests a need for new products for individuals whose age will extend beyond Peru's average life expectancy.

Consumers show a strong preference for more conservative product characteristics that offer predictable returns and capital preservation. Peruvian consumers also want guaranteed income for life.

Banks continue to be the most popular channel to buy retirement income products, and respondents across regions selected banks as the preferred distribution channel.

¹ United Nations Department of Economic and Social Affairs, <https://population.un.org/wpp/> (accessed November 2019).

² Ibid.

Introduction

Peru is in the middle of a demographic transition process, with a rapidly aging population. While its economy is still vibrant, it needs to prepare now to successfully face the challenges of financing retirement for a growing number of elderly.

In recent decades, the population of Peru (32 million in 2017) has gone through a demographic transition process of lower fertility, greater longevity, and a changing social structure.

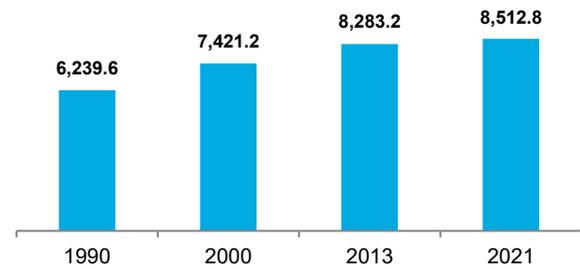
Between 2013 and 2021, Peru's population experienced some aging because of the increase in life expectancy. However, in absolute terms, its young population, including those of working age, continues to represent the largest age cohort.

From 2013 to 2019, the median age of the Peruvian population stood at 26 years, one of the youngest in Latin America, although up from 20.5 years in the early 2000s. As of 2019, the population over age 65 represented 6.3 percent of the total population, geographically concentrated between the Central Coast (Lima 7.3 percent; Ancash 7 percent; Constitutional Province of Callao 7 percent; and Ica 6.8 percent) and the South Coast (Arequipa 7.3 percent and Moquegua 7.1 percent).³

Given current and projected birth, mortality, and migration rates, among other factors, it is expected that the proportion of children under age 15 will decline from 28.7 percent in 2013 to 18.5 percent in 2050 (Figure 1). In turn, the portion of the population over age 65 will increase from 6.3 percent in 2013 to 16.1 percent in 2050 (Figure 2).⁴

Figure 1 — Total Young Population and Annual Growth Rate

1990, 2000, 2013 and 2021 (in thousands)⁵



Source: National Institute of Statistics and Information Technology-Peru: Estimates and Projections of Total Population, for Calendar Years and Simple Ages, 1950-2050.

Peruvian women (53.3 percent) outnumber men (46.7 percent). The population between birth and 59 years increased by only 2.7 percent, from 26 million in 2010 to over 28 million today. People aged 60 and older increased by 10.8 percent in the same period.⁶

By 2021, year of the bicentenary of Peruvian independence, the elderly population will have reached 11.2 percent, while it represented 6.1 percent of the total population in 1990, and 7.1 percent in the year 2000.

³ Instituto Nacional de Estadística e Informática, https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1095/libro.pdf (accessed November 2019).

⁴ Ibid.

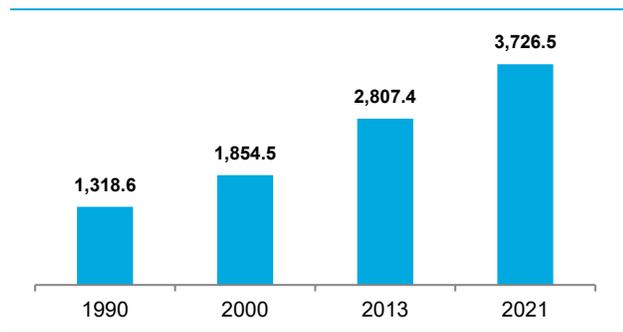
⁵ Ibid.

⁶ Ibid.

A greater proportion of the elderly population resides in urban areas (76.7 percent), compared to rural areas (23.3 percent).⁷

Figure 2 — Population Age 60 and Older

1990, 2000, 2013, and 2021 (in thousands)

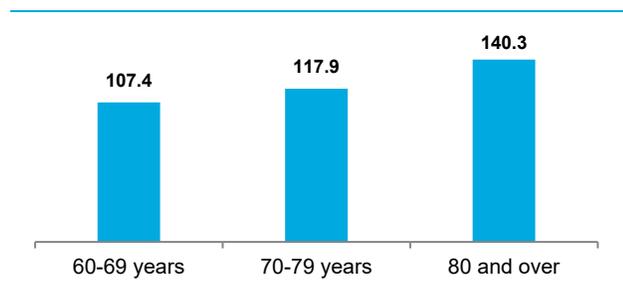


Source: National Institute of Statistics and Informatics.

Women have a greater life expectancy than men and represent about 50 percent of the population over age 45 and 58.4 percent of the population over age 80. At a national level, there are 140.3 women aged 80 and older per 100 men (Figure 3).⁸

Figure 3 — Number of Elderly Women in the Peruvian Population

By age group, 2013



Source: National Institute of Statistics and Informatics.

From 2000 to 2015, life expectancy increased by 2.5 years. In 2015, 60-year-old men had an average additional life expectancy of 19.8 years and women of 22.7 years.

Longevity is likely to exert immense pressure on the economic and social role of Peru’s pension systems. Now is the time for the country to begin preparing to face the challenges of an increasingly aging workforce, a disequilibrium between the working age and retired populations, and a possible slowdown in economic growth.

Other social and economic changes could further exacerbate the challenges related to retirement financing.

In addition, the structure of the Peruvian family has also changed from the norm of two parents, grandparents, and two or three children. The current trend is toward a nuclear family structure with fewer children. Increasingly, couples, including same-sex couples, decide to forgo or delay having children.

Approximately 75 percent of the elderly population serve as head of household: “Almost 3 of 4 men aged 60 and older (74.2 percent) serve as head of household, with high percentages in the age groups of 60 to 65 years (71.9 percent) and 66 to 75 years (67.5 percent). In the case of women, 25.8 percent are head of household, mainly in the age groups of 66 to 75 years old (32.5 percent) and 76 years and older (39.4 percent). In general, as age increases, the number of women as head of household also increases, a fact that is related to greater female life expectancy.”⁹ Among the 17 percent of Peruvian elderly who live alone, women outnumber men approximately 3 to 1.¹⁰

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.



As in many Latin American countries, a significant number of the elderly in Peru often depend on their families and their children to finance their retirement and care. The changing family structure will have a direct impact on how people spend their lives in retirement. Over time, urbanization tends to reduce household size and may leave more elderly to manage on their own.

Therefore, comprehensive, adequate, and sustainable pension systems are necessary to help satisfy the future financial needs of retirees.

This study identifies how consumers plan to address their current or future retirement challenges and what their aspirations are. An extension of the original 2015/2016 retirement study in China by LIMRA in partnership with the Society of Actuaries (SOA), this study identifies the challenges associated with social security systems and retirement planning in the largest markets of Latin America.

About the Survey

The Spotlight on Retirement study in Peru is part of a collaborative research project by LIMRA and the Society of Actuaries (SOA). With the participation of 1,015 respondents, it reveals consumer perceptions related to retirement in six macro regions of Peru: the North Coast, Central Coast (Lima Province, the nation's capital), South Coast, North Highlands, South Highlands, and Amazon. Like the related Latin American studies conducted in Argentina, Brazil, Chile, Colombia, and Mexico, this study sample focuses on the demographic segments of young workers (ages 30–45), preretired (ages 46–60) and retired (ages 60+).

Young workers are defined as those at an early stage of their careers and often planning to get married or start a family. Preretirees plan to start or have already started saving for retirement. Retirees are those already receiving social security benefits or those nearing full retirement age and planning to start receiving their benefits in the short term.

The data were collected through an online survey across all Latin American markets. The analysis explores the differences in retirement conduct and planning among different regions, subregions, age groups, and genders to help insurers and other financial services organizations develop effective solutions to meet consumers' retirement planning needs. The study also highlights consumers' retirement readiness by analyzing current and future sources of income, risk tolerance, and product preferences/characteristics.

- The online survey sampled 1,015 respondents in six subregions to reflect the regional diversity of the Peruvian population (Table 1).
- To gather a representative market sample for insurers and other financial institutions, the survey covered several subregions with different income levels (see Appendix) and included quotas based on income levels and other parameters to ensure reliable quality of data.

Table 1 — General Sample Division by Region

	Sample
North Coast	125
Central Cost (Lima)	642
South Coast	64
North Highlands	48
South Highlands	97
Amazon	39
Total	1,015

Table 2 — General Sample Division by Age Group

Age Range	Sample
30-45	341
46-60	340
61-75	334
Total	1,015

Table 3 — General Sample Division by Gender

Gender	Sample
Male	508
Female	507
Total	1,015



Demographic Transition

Demographic transition theory seeks to explain a specific change in demographic dynamics, namely the sharp drop in fertility, birth, and death rates. This theory was proposed to explain the relationship between population growth and socioeconomic development.

Fluctuations in population growth occur only once in each country and are aligned with the urban-industrial development process. Therefore, economic development and modernization of societies are the main factors responsible for changes in birth and death rates that affect population growth.

Just as countries develop in different ways and rhythms, demographic transition occurs differently across different societies. In addition, it entails major changes in population structures (pyramids).

The theory originated with the work of American demographer Warren Thompson in the late 1920s to challenge the Malthusian demographic theory. According to Thompson's theory, the population does not have uninterrupted and accelerated growth, but grows with periodic oscillations, alternating demographic growth and deceleration with periods of stability.

Thompson elaborates on the concept in the period of the Industrial Revolution, that is, in the context of the establishment of modern society. Prior to that, mortality and birth rates were consistently high, leading to some demographic stability.

Demographic Transition Phases

Due to variations in birth and death rates, a demographic transition is considered to have four societal development phases:

PHASE 1 — also known as “pre-transition,” the first phase of a demographic transition is characterized by high birth rates and mortality, which combine to limit population growth. Populations from mostly rural areas also characterize this phase.

The birth rate is high in this phase due to deficient access and knowledge about family planning. Moreover, because most societies in the pre-transition period live in rural areas, a large number of children represented a source of labor contributing to the household economy.

The high mortality rate of this phase is due to underdeveloped medical practice, poor sanitary conditions, and constant wars and epidemics.

The first phase of the demographic transition took place in Europe from the dawn of the first civilizations until the middle of the eighteenth century. No country in the world currently remains in this phase.

PHASE 2 — declining child mortality combined with high birth rates generates population growth with a potentially virtuous effect — the so-called “demographic bonus” — as the proportion of the working-age population increases.

In European countries this phase is closely related to the Industrial Revolution, a period in which treatments for diseases emerged, sanitary and medical conditions improved, and food was produced on a large scale. The second phase of the demographic transition also marks the beginning of urbanization. Haiti and some African countries are examples of nations currently going through this phase.



PHASE 3 — the death rate remains low and birth rate declines for the first time in phase three. A population surplus occurs, but at a slower rate than in the second phase.

The consolidation of urban over rural life is a striking feature of this period. The drop in the birth rate can be explained by two main factors:

- In a rural environment, children were considered human resources for the household economy; whereas in an urban environment, they generally represent expenses.
- Increasing entry and participation of women in the labor market may conflict with responsibilities of childbearing and postpone the decision to have children. Professional and emancipatory goals gain importance for women. In addition, most contraceptive methods emerge in this phase, which makes family planning easier and more accessible. Most developing (industrialized) countries such as India and Mexico are at this stage.

PHASE 4 — the fourth phase of the demographic transition is the result of the continuation of previous phase trends: the birth rate stabilizes at low levels, and the mortality rate (in a downward trend since phase 2) remains low, causing low population growth.

The aging of the population marks this phase, with a relatively high average age. Population aging is due to longer life expectancy (closely related to low mortality) and associated with a smaller number of children per couple.

In phase four, a country's demographic transition is deemed to have ended. Japan, Norway, and Sweden are examples of nations in this group.

Although Thompson's demographic transition model describes four phases, demographers are studying the possibility of adding a fifth phase to describe a decline in the absolute population.

“Although the original demographic transition model described by Warren Thompson has only four stages, the passage of time has allowed the addition of a fifth phase in which the birth rate remains low, while mortality increases slightly due to population aging. Under these circumstances, population growth can become negative, as has happened in the countries of central Europe. Thus, in the more developed countries of Western Europe, such as Germany and Italy, positive numbers of the migratory inflow offset the negative natural growth.... The term “zero growth” was proposed by the 1970 neo-Malthusian predictions of the Club of Rome.”¹¹

¹¹ Wikipedia, https://es.wikipedia.org/wiki/Transici%C3%B3n_demogr%C3%A1fica#cite_note-8 (accessed November 2019).

The Peruvian Demographic Transition

Peru has already entered a phase of mass demographic transition. Between 2013 and 2019, the median age of the Peruvian population stood at 26 years, up from 20.5 years at the turn of the 21st century. It is anticipated that the population aged 65 and older will represent 11.2 percent of the total population by 2021. The growth of the number of older adults in the population is expected to be particularly pronounced and nearly double over the next decades.

Figure 4 — Incipient to Advanced Demographic Transition Scenarios

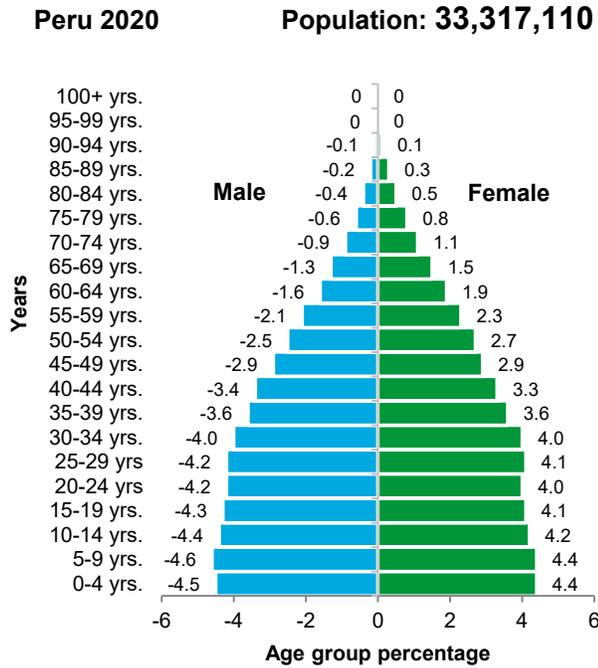
SCENARIO	GROWTH	COUNTRIES
Incipient transition	2.5% annual	Bolivia, Haití
Moderate transition	Close to 3%	El Salvador, Guatemala, Honduras, Nicaragua, Paraguay
Full transition	Moderate, close to 2%	Brazil, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Dominican Republic, Venezuela
Advanced transition	Under 1%	Argentina, Chile, Cuba, Uruguay

Massive growth in the number of older people will rapidly change the population structure.

Medical advances and improved lifestyles have resulted in prolonged life expectancy. Together with the decreasing growth of the general population, this trend will result in a massive change in the population's age structure.

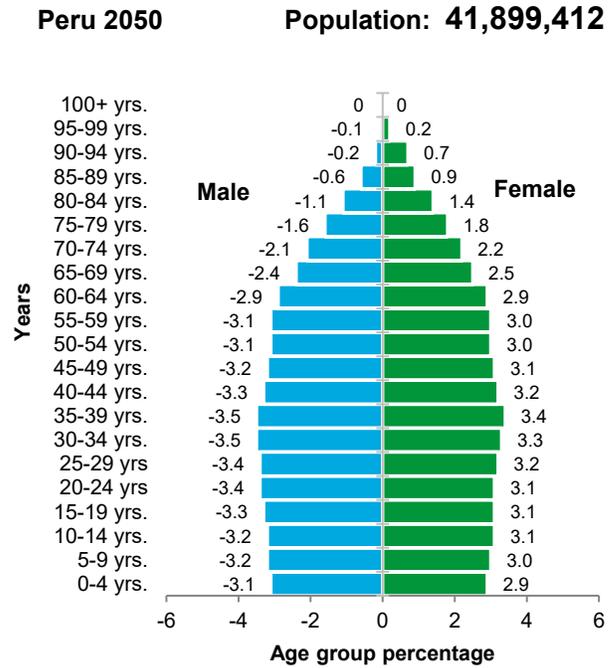
The population pyramids of Peru (as projected for 2020, 2030, and 2050) clearly illustrate the aging of the population. The trend towards demographic transition strongly indicates that the country faces a challenge to adapt to the special needs of an aging population.

Figure 5 — Population Pyramid 2020



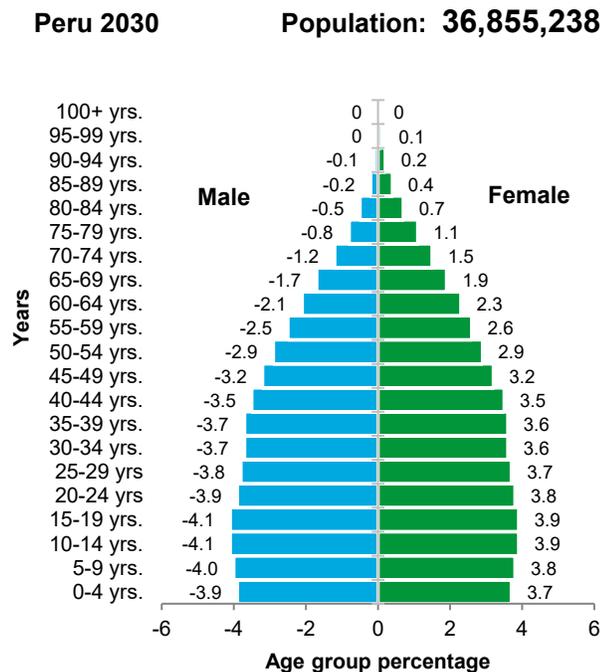
Source: UN Population Division — 2017 data, LIMRA International Research.

Figure 7 — Population Pyramid 2050



Source: UN Population Division — 2017 data, LIMRA International Research.

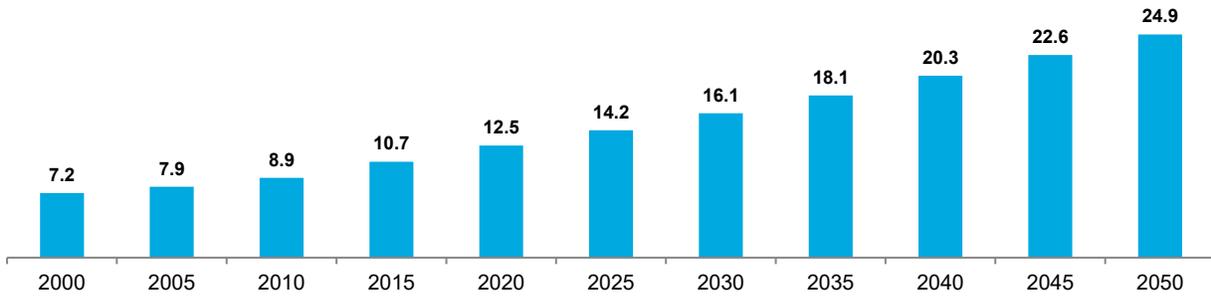
Figure 6 — Population Pyramid 2030



Source: UN Population Division — 2017 data, LIMRA International Research.

It is likely that by year 2050 the elderly segment (population aged 60 and above) will have tripled since the turn of the century.

Figure 8 — Proportion of People Aged 60 and Older in the Total Population



Source: UN Population Division — 2017 data, LIMRA International Research.

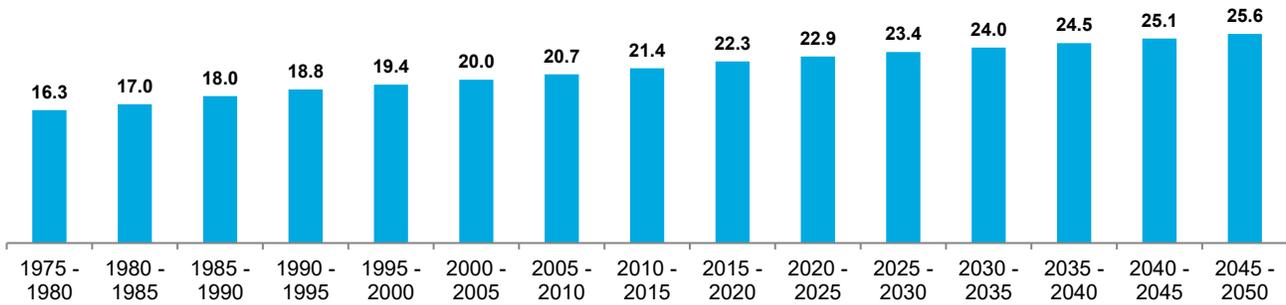
As the population structure of Peru changes, it is likely that the proportion of older people (aged 60 or above) will increase from 7.2 percent of the general population at the turn of the century to 24.9 percent in 2050, surpassing general population growth and creating socioeconomic stressors.

Life Expectancy, Birth Rates, and Potential Support Ratio

Another cause that has led to the growth of the elderly population is the increase in life expectancy resulting from medical advances and improved lifestyle, coupled with the decrease in both transmissible and non-transmissible diseases, among many other factors.

Over the years, life expectancy at age 60 has gradually increased. The Peruvian life expectancy at age 60 in 1975–80 was that of 16.3 additional years. It is likely to climb to 25.6 years by 2045–50 (Figure 9).

Figure 9 — Life Expectancy at Age 60 (in years)



Source: UN Population Division — 2017 data, LIMRA International Research.

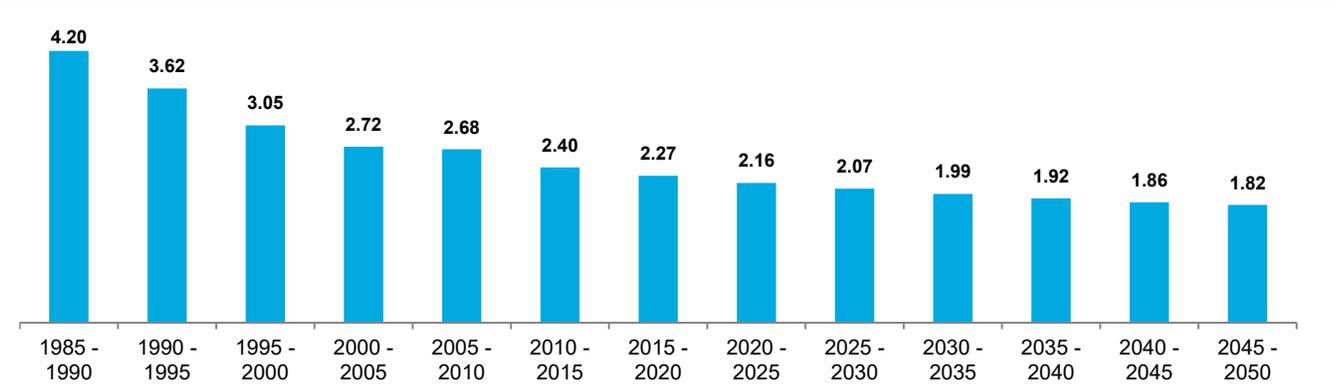


Peru is going through an important cycle of demographic transition. The fertility rate decreased from 4.2 children per woman in 1985–1990 to 2.27 in 2015–2020. It is projected to fall further to 1.82 by 2050, taking it below the minimum replacement rate. To maintain a constant population level, the fertility rate must be at least 2.1. If this rate is not maintained, population is likely to decrease in the long term. In addition, a comparatively lower gross mortality rate will feed aging.

In this demographic phase, where the birth rate falls below the minimum replacement levels of 2.1 and is accompanied by a lower mortality rate and extended life expectancy, “aging” is triggered (Figure 10).

Declining fertility rate and relatively lower mortality rates, along with increasing life expectancy, will trigger the aging of the population.

Figure 10 — Total Fertility (live births per woman)



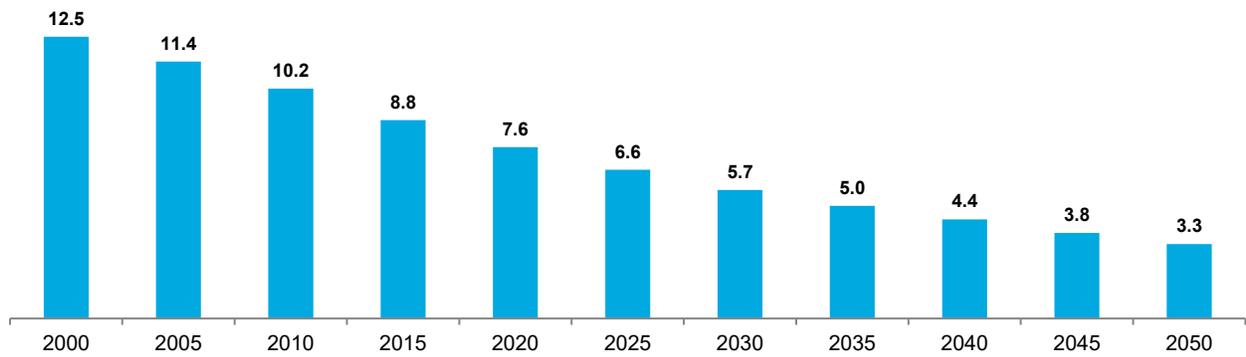
Source: UN Population Division — 2017 data, LIMRA International Research.

The potential support ratio indicates the number of people aged 15–64 per one older person aged 65 or above. The ratio represents the burden placed on the working population (unemployment and children are not considered in this measure) by the non-working elderly population.

Peru’s potential support ratio indicates that the responsibility of the working-age population and the government to meet the needs of the elderly population will likely increase. The ratio projects a constant deterioration between 2000 and 2050. In fact, is likely to reach 3.3:1 by 2050, down from 12.5:1 in 2000, and, by the end of this century, it will gradually reach even lower levels. This means that in the future there will be less than two people in the workforce to support one person over age 65 — a scenario that poses enormous challenges and pressure on health, retirement, and pension systems (Figure 11).



Figure 11 — Potential Support Ratio



Source: UN Population Division — 2017 data, LIMRA International Research.

Note: Potential support index = population index 15-64 for population 65+.

In addition, it is likely that Peru’s social support structure will weaken with increased urbanization, when younger workers move to urban centers and leave older parents behind. As an increasing proportion of older people depend on their families for retirement income, they may find their needs unmet.

Major Challenges Due to the Aging Population

Peru is at the beginning of its population-aging phase, in which birth and death rates begin to decline more rapidly, while population growth remains positive. Retirement challenges will be increasingly pronounced. The aging of the population, with the corollaries of increased longevity, decreased morbidity, and the risks of medical-care inflation, will pose enormous challenges.

Demand for healthcare, long-term care, and retirement income products will climb. The importance of helping people prepare for retirement by providing pensions, personal savings, and medical care will grow.

As a country goes through an aging cycle, the insurance industry needs to offer personalized products in life, savings, pensions, and health segments to meet the unique needs of its citizens.

The demographic transition that has been taking place over the last 80 years in some Latin American countries is about to start a new phase — one that will increase dependency (Figure 12).

Figure 12 — Thompson's Demographic Transition Stages

Phase	Countries	Birth rate (%)	Mortality rate (%)	Differential (+ -)	Features
Phase 1	None	40-50	40-50	of +10 to -10	High birth and death rates Mortality rates observed only in the first half of the twentieth century.
Phase 2	Republic of Chad	45.75	14.37	31.38	Birth rate is high, while mortality drops sharply, resulting in population growth.
Phase 3	Peru	20.02	5.62	14.40	Birth rate begins to decline, and while mortality continues to fall, population growth remains positive.
	Mexico	19.1	4.76	14.34	
In transition to Phase 4	Colombia	16.8	5.82	10.98	Birth and mortality rates begin to converge, so that growth is negligible and immigration plays a key role in population growth.
	Argentina	17.72	7.78	9.94	
	Brazil	14.93	6.07	8.86	
	Chile	13.39	5.11	8.28	
Phase 5	Japan	8.2	10.1	-1.9	Birth rate continues to fall until it is below the death rate, which in turn increases with the average age of the population. Population growth is therefore negative.

*For every 1,000 people.

Source: With 2013 data, *Actualitix* — <https://es.actualitix.com/pais/wld/tasa-de-natalidad-por-pais.php> (accessed November 2019).

Note: The extreme cases of Chad and Japan are shown to provide a basis of comparison.

This report highlights what Peruvian consumers think about the challenges posed by retirement and how they plan to address the various risks. The study also sheds light on how financial institutions and advisors can help their clients solve financial problems by developing new products and solutions.



The Structure and Challenges of the Current Pension Systems

The Peruvian pension system has a non-contributory safety net and an earnings-related contributory component. The non-contributory pension provides a modest benefit to individuals in extreme poverty who do not have access to a contributory pension. The earnings-related pension, mandatory for all formal workers, is made up of a public pay-as-you-go (PAYG) system and a private system of funded individual accounts. Workers must choose whether to contribute to the public or to the private system. Although contributions are not mandatory for self-employed workers, they can voluntarily choose to contribute to either system.

Several special contributory pension schemes also exist for workers in specific occupations, but many of these have been closed to new entrants. Workers affiliated with the private system may also make additional voluntary contributions to their pension accounts. Non-contributory benefits for the elderly are provided through the Pension 65 program, which was established in 2011 and provides a flat benefit to the elderly in extreme poverty. The program is not integrated with the rest of the pension system and is managed separately by the Ministry of Development and Social Inclusion (MIDIS).¹²

The public and private contributory pension systems are not complementary. Rather, they operate in parallel, and all formal workers in Peru are required to contribute to one or the other. The public system is a PAYG defined benefit pension system managed by the public sector (Sistema Nacional de Pensiones, SNP). The private system is an individual defined contribution pension system managed by the private sector (Sistema Privado de Pensiones, SPP). Individuals can switch from the SNP to the SPP at any time, but they may not switch back to the SNP. There are also special schemes for certain occupations that are managed separately, for example, the military and civil servants.¹³

Both the public and private systems provide benefits in the form of 1) retirement pensions; 2) disability pensions; and 3) survivor pensions for spouses, dependent children, and dependent parents. In addition, individuals working in hazardous or arduous occupations are covered for disability and survival insurance under the Complementary Insurance for Risky Occupations (Seguro Complementario de Trabajo de Riesgo, SCTR) scheme. The legal retirement age is 65 under both systems, but several options for individuals to retire early also exist.

¹² Organization for Economic Cooperation and Development, *OECD Reviews of Pension Systems: Peru* (2019).

¹³ *Ibid.*



National Pension System (SNP) — created by Decree-Law No. 19990, effective as of May 1, 1973, the system provides a benefit received at the full retirement age of 65. Eligibility depends on the worker having contributed 13 percent of salary or income on a monthly basis to the system for not fewer than 20 years. The system is administered by the National Pension Office (ONP).¹⁴

It has the following characteristics:

- Contributions as a worker are not mandatory
- The minimum requirements to obtain a retirement benefit are 20 years of contribution time and full retirement age of 65
- Access to an early retirement benefit are available for women at age 50 and for men at age 55. It is necessary to have a minimum of 25 and 30 years of contributions, respectively
- Survivor pensions are provided when deceased and survivor have contributed a minimum of 20 years
- Pensions are awarded for disability, widowhood, orphanhood, ancestry, and death
- The amount of pension depends on the years of contributions and the average of the last effective remuneration of working life
- The maximum amount of retirement pension is **S/893.00***
- The minimum pension is **S/500.00*** for pensioners with 20 or more years of contributions

*As of February 9, 2020, 1 Peruvian sol equaled 0.30 of a United States dollar.

Private Pension System (SPP) — the funded private pension system (Sistema Privado de Pensiones) is a fully funded defined contribution system with individual accounts. The SPP is regulated and supervised by the Superintendence of Banks, Insurance and AFP (Superintendencia de Banca, Seguros y AFP, SBS). The pension fund administrators (Administradoras de Fondos de Pensiones, AFPs) manage the assets for the individual accounts. There are currently only four AFPs operating in the market.¹⁵

Contributions to the SPP comprise two main components: 1) deposits into the retirement savings account, amounting to 10 percent of the wage; and 2) a premium for disability and survival insurance, set at 1.36 percent of the wage. In addition, the AFPs charge affiliates a management fee that is either calculated as a percentage of wages and paid on top of contributions or calculated as a percentage of assets under management (AUM) and deducted from the individual's account accumulated since May 2013.¹⁶

At retirement, individuals can choose to receive their pensions in one of three ways or in some combination:

- Leave their assets invested with the AFP and take a programmed withdrawal, calculated considering their account balance, age, gender and family size
- Transfer their assets to an insurance company to purchase a life annuity
- Take 95.5 percent of their assets as a lump sum, with the remaining 4.5 percent transferred to EsSALUD (Social Health Insurance of Peru) to finance their health coverage (since April 2016)

¹⁴ Excerpted from the government of Peru website, <https://www.gob.pe/515-elegir-sistema-de-pensiones> (accessed November 2019).

¹⁵ Ibid.

¹⁶ Ibid.



Over 95 percent of individuals retiring now take the lump-sum option. Regardless of the option taken, 4.5 percent of the pension benefit goes to EsSALUD to finance health benefits.

Since the lump-sum payout option was created in 2016, **over 94,500 people have already spent all the money they withdrew from the system.** It is estimated that two thirds of the members who withdrew their funds did so through the temporary special retirement schemes for individuals who are unemployed (REJA) and the Ordinary Early Retirement (JAO). In fact, while the legal retirement age in Peru is 65 years old, about 190,000 people who decided to withdraw their funds were between 51 and 65 years old.¹⁷

¹⁷ El Dinamo, <https://www.eldinamo.cl/actualidad/2019/06/10/peru-mas-90-mil-afiliados-que-retiraron-sus-fondos-de-la-afp-gastaron-sus-ahorros> (accessed November 2019).

Sustainability of the Pension Systems

The Allianz Pension Sustainability Index (PSI) analyzes the fundamentals of pension systems and the key impacts to help identify necessary reforms (Figure 13). To reach a ranking that reflects the long-term sustainability of a particular pension system, German insurer Allianz analyzed 54 markets based on an extensive list of parameters (Figure 13).

The PSI mainly uses the following three sub-indicators to measure the sustainability of a specific pension system:

- Demographic changes
- Public finances
- Design of the pension system

Figure 13 — Pension Sustainability Index*

Sub-indicators	Status (0.75)**	Dynamics (0.25)**
Demography	Old Age Dependency Rate (OAD)*	Change in OAD* until 2050
Pension system	Level of pension benefit from the first pillar and coverage of the workforce	Reforms approved
	Legal / effective retirement age	
	Strength of the pillar and the reserve fund financed (as % of GDP)	
Public finances	Pension / GDP payments Public indebtedness / GDP Need for social assistance	Change of pension / GDP payments until 2050

* Ratio of ≥ 65 years to 15 to 64 years.

**Weighted.

Source: Allianz Asset Management, *International Pensions*, 2016.

Peru is ranked 19th of the 54 markets included in the general index of pension sustainability. Within the sub-parameters of the index, Peru occupies an impressive first position in public finances. In addition, it holds a very promising position in demography, because its population is not fully “aged.” However, the pension system ranks 47th (Table 4).

Table 4 — Allianz Pension Sustainability Index, Latin America (2016 Ranking)¹⁸

TOTAL			Demography	Public Finances	Pension System
Country	Ranking*	World Ranking	World Ranking	World Ranking	World Ranking
Chile	7.2	10	32	4	24
Mexico	7.1	12	14	14	34
Peru	6.7	19	5	1	47
Argentina	6.6	22	2	23	43
Colombia	6.2	38	23	2	48
Brazil	5.6	50	31	40	45

*On a scale of 1 to 10.

Note: Includes covered markets in this study.

¹⁸ Finke, 2016.

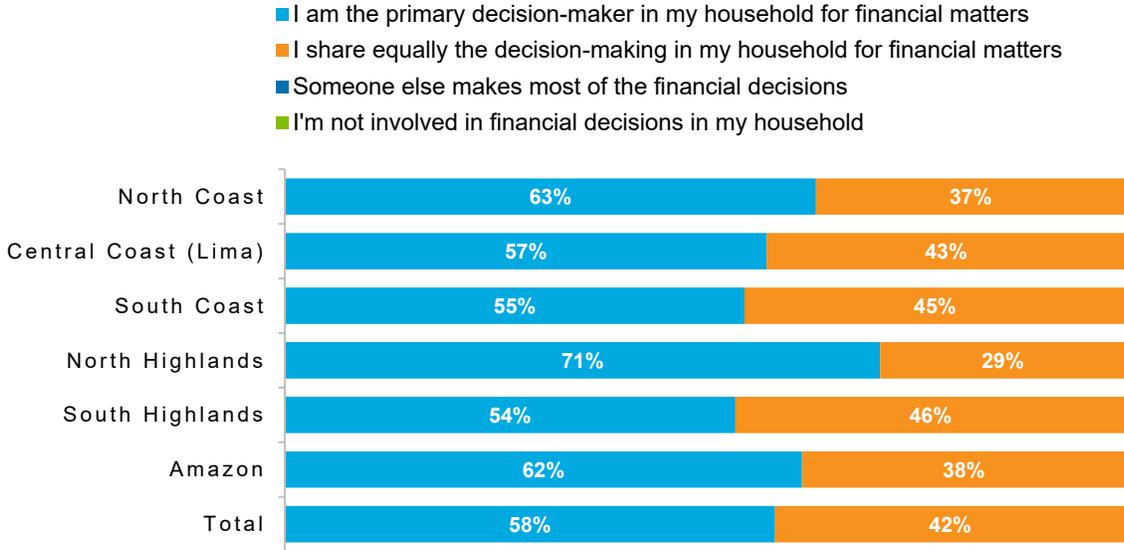
Retirement — A Consumer Perspective

The LIMRA and SOA retirement research series looks in detail at the participating local markets. The research identifies the ways in which decision-makers and / or those contributing to financial decision-making in their households plan to address retirement challenges.

Shared financial decision making is growing significantly in Peruvians households, with noted differences across regions (Figure 14).

Figure 14 — Household’s Financial Decision-Maker

Question: *How would you describe your role in making financial decisions for your household?*



The main financial dependents in most Peruvian households are children (61 percent) and spouses (46 percent). These statistics point to the preeminence of the nuclear family over extended families, even in the Amazon and South Highlands regions that could be considered as more traditional. Dependent parents — especially mothers — are more numerous in Peru than in other Latin American countries (Table 5).

Table 5 — Financial Dependency

Question: *Which of the following individuals are financially dependent on you?*

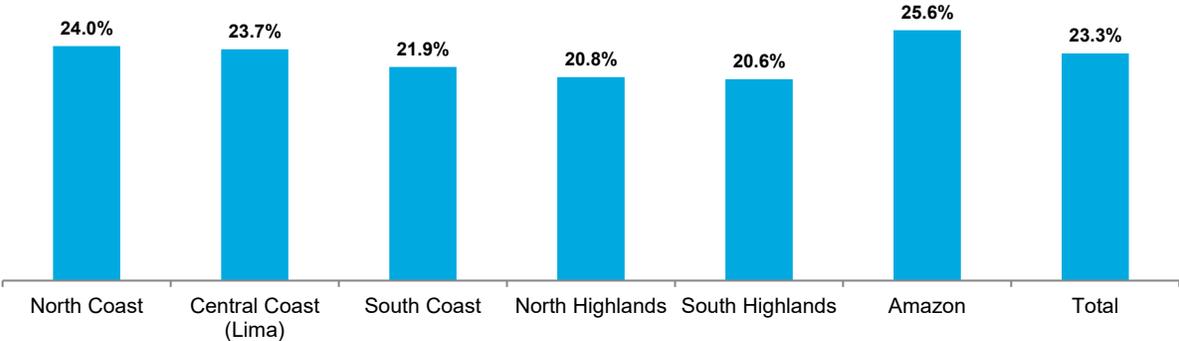
Dependent	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Spouse	41.7%	41%	38.9%	54.8%	55.0%	41.9%	46%
Mother	23.2%	20.2%	20.3%	18.8%	17.5%	15.4%	19%
Father	5.6%	7.5%	17.2%	8.3%	10.3%	2.6%	9%
Child/Children	60.8%	54.2%	59.4%	58.3%	55.7%	76.9%	61%
Spouse's mother	1.9%	2.8%	3.7%	4.8%	5.0%	6.5%	4%
Spouse's father	0	0.9%	1.9%	2.4%	2.5%	0	1%
Siblings (Brother/Sister)	7.2%	6.4%	7.8%	4.2%	4.1%	0	5%
Nephew	0	0	0	0	0	0	0
Niece	0	0	0	0	0	0	0
Other	4.8%	4.4%	3.1%	4.2%	5.2%	0	4%
None	11.2%	18.5%	18.8%	25.0%	13.4%	5.1%	15%



Increased longevity, especially in large cities, may also mean living alone longer. This potential increases the need for care at the end of life and to finance these years with adequate savings. However, to fulfill that responsibility successfully for a longer period, effective financial planning is required. When asked if they worked with financial experts to help with financial decisions in their households, about a quarter (23.3 percent) of respondents indicated that they do not work with any financial professional (Figure 15).

Figure 15 — Financial Professionals Are Not Hired to Help With Household Financial Decisions

Question: *Does your household typically work with any financial experts to help with your household financial decisions?*



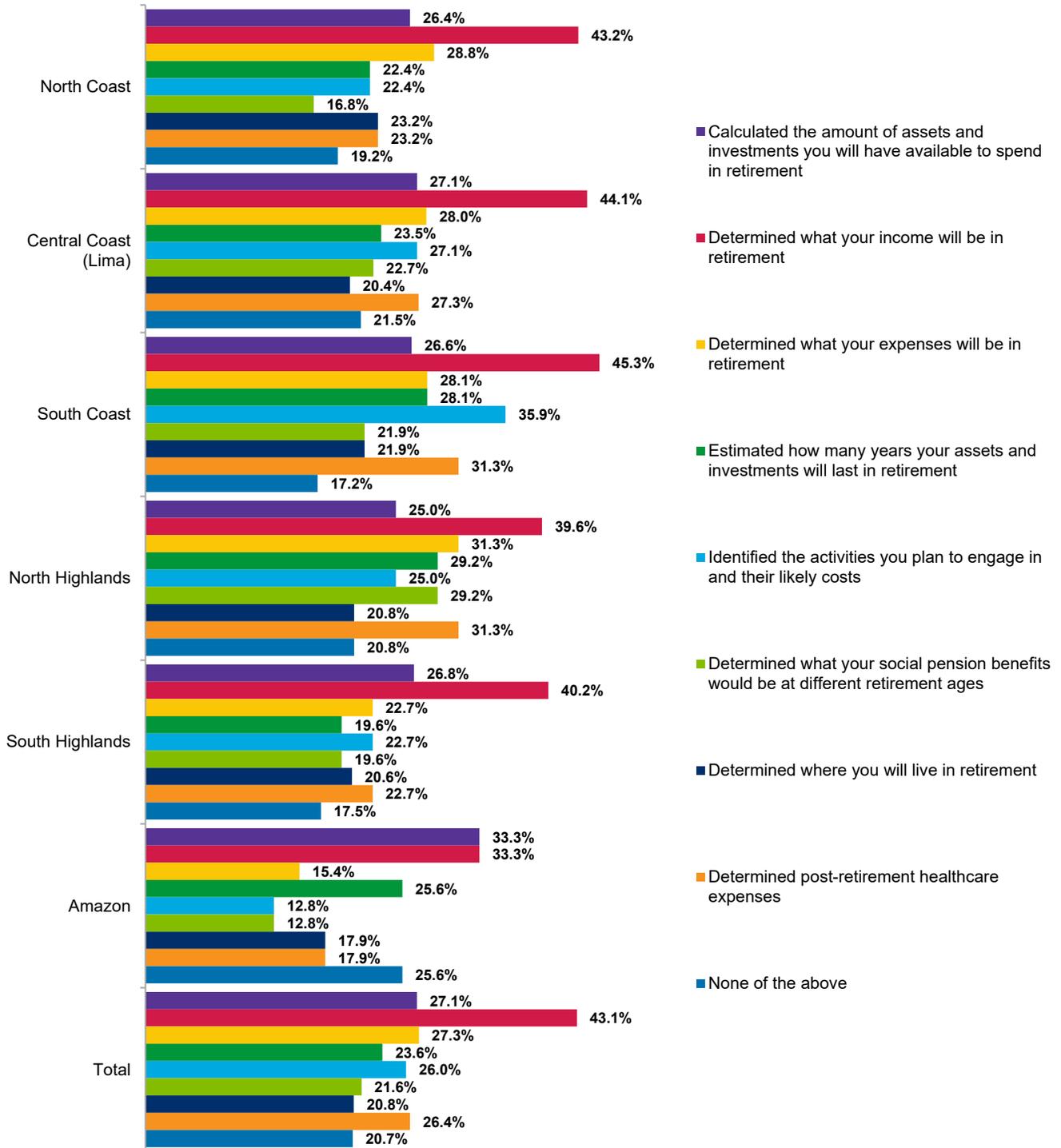
Results represent respondents who answered "no."

Around 20.7 percent of Peruvian consumers have not taken any initiative on retirement planning, suggesting that a fifth of Peru’s population may not be preparing for a stable retirement and that consumers are not taking advantage of its demographic bonus.

Retirement planning initiatives vary by region. Most consumers in the South Coast and North Highlands regions say they have determined how much their income will be during retirement, including post-retirement health expenses (Figure 16). Almost 22 percent of consumers in the Central Coast region, where the capital Lima is located, have not taken any initiative.

Figure 16 — Retirement Planning Activities

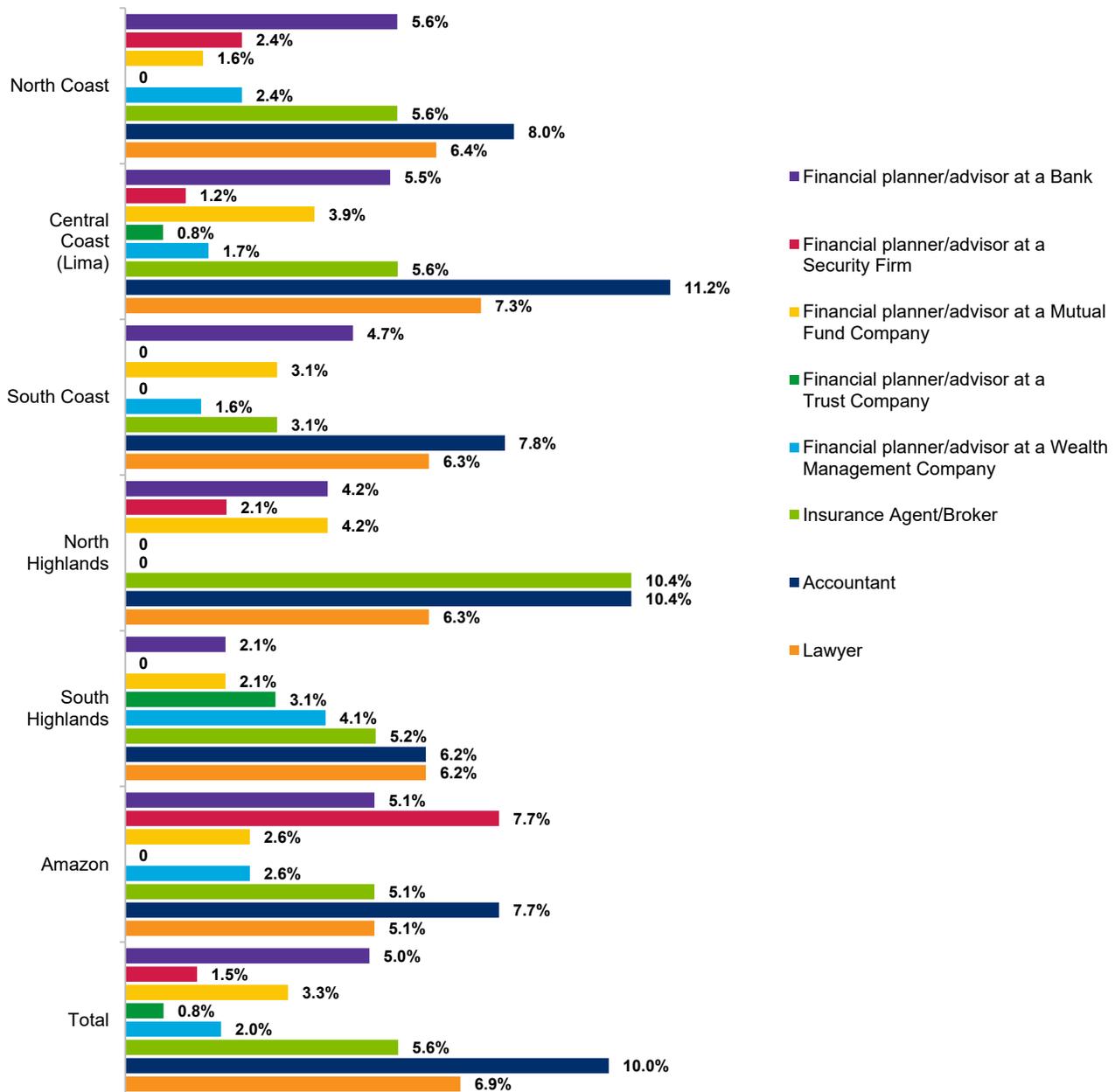
Question: Which of the following retirement planning activities have you done?



As noted earlier, 23 percent of Peruvian consumers do not work with financial professionals for help with financial decisions. For those who do, the preferred type of financial professionals across regions (especially in the North) are accountants, followed by lawyers and insurance agents/brokers. In fact, accountants were preferred first or second in all the Latin American countries included in this survey — indicating that consumers trust accountants to serve their financial interests much more than they trust financial advisors at various types of financial services organizations (Figure 17).

Figure 17 — Those Looking for Help With Household Financial Decisions, Go to a...

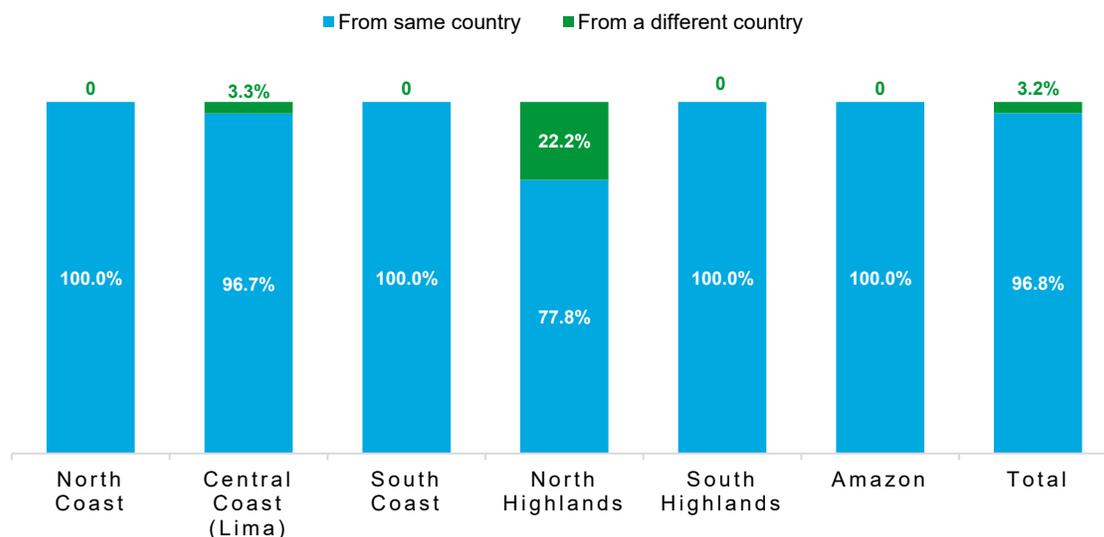
Question: Does your household typically work with any financial experts to help with your household financial decisions? If yes, please select all that apply.



Along with Argentina and Chile, Peru has one of the highest percentages of offshore financial advisory (3.2 percent) in Latin America. The North Highlands region is mainly responsible for that demand (Figure 18).

Figure 18 — Those Who Bought From a Foreign Consultant ...

Answering the question: *Does your financial advisor operate at home or abroad?*

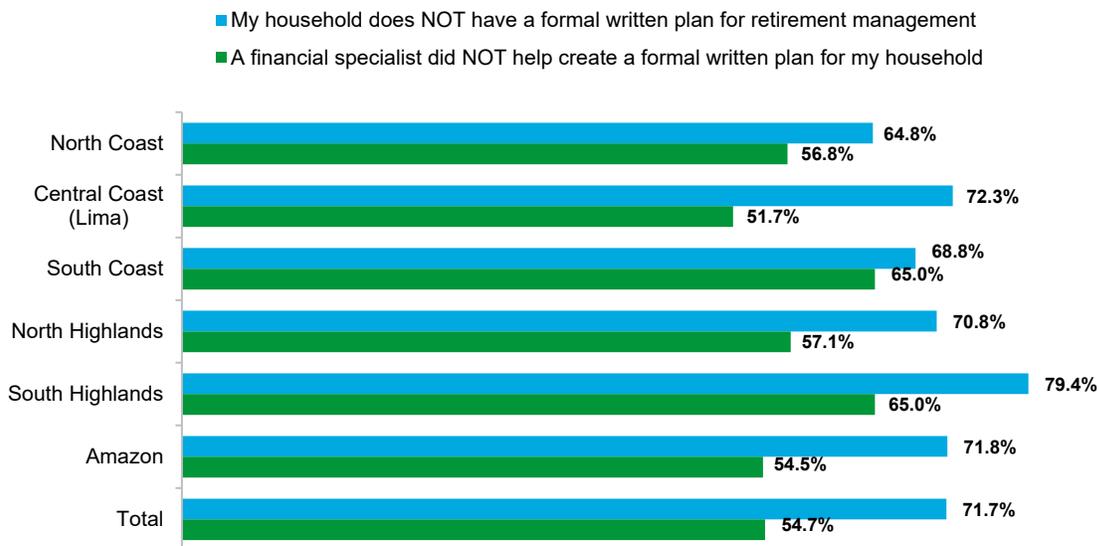


Fifty-four percent of Peruvian households with a formal written plan for retirement do not seek the help of financial experts.

Most Peruvian households seek professional help with financial decisions on a regular basis, but that’s not necessarily true for retirement planning. In fact, 7 out of 10 households do not have a formal written plan for retirement management, and over half of those that do did not create a formal written plan with the help of a financial specialist (Figure 19).

Figure 19 — Retirement Planning

Question: *Does your household have a formal written plan for managing your income, assets, and expenses during retirement? If so, did a financial professional help your household create your plan?*



Distrust of financial institutions among Peruvian consumers (38.8 percent) is lower than in other Latin American countries. The North Highlands region shows much higher levels of distrust than the other regions. A clearly identified retirement concern for almost 7 out of 10 consumers is that the employer should provide more comprehensive information and advice on retirement savings and planning — especially in the North Highlands region. Confidence levels in the ability to live a desired retirement lifestyle is also high (65.4 percent), particularly in the Central Coast (Lima). However, only 4 out of 10 consumers claim to have enough savings to last until the end of retirement, while half of Peruvians say they are highly involved in monitoring and managing retirement savings (Table 6).

Table 6 — Retirement Readiness and Managing Risks

Question: For each of the following statements pertaining to your retirement concerns and actions, please indicate if you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, or strongly disagree.

Retirement Concerns and Actions	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Trust							
I am confident that I will be able to live the retirement lifestyle I want	65.6%	67.1%	65.6%	56.3%	56.7%	69.2%	65.4%
I have enough savings to last until the end of my retirement	45.6%	41.0%	51.6%	54.2%	36.1%	41.0%	42.4%
Assistance							
I would like my employer to make available more comprehensive information and advice on retirement savings and planning	61.7%	67.2%	72.1%	80.6%	68.9%	62.1%	67.4%
Action							
I would be willing to purchase or plan to purchase a financial product that will provide guaranteed-lifetime income	62.4%	61.8%	62.5%	64.6%	66.0%	71.8%	62.9%
I am currently very involved in monitoring and managing my retirement savings	53.6%	49.7%	50.0%	50.0%	52.6%	46.2%	50.3%
Challenges							
I do not trust financial institutions with my money	37.6%	39.1%	29.7%	52.1%	37.1%	41.0%	38.8%
It is rare to hear people talk about retirement planning in the workplace	56.8%	56.5%	53.5%	51.6%	67.2%	48.3%	56.8%
I have/will inherit property from parents/relatives	34.4%	32.1%	37.5%	35.4%	33.0%	33.3%	33.0%

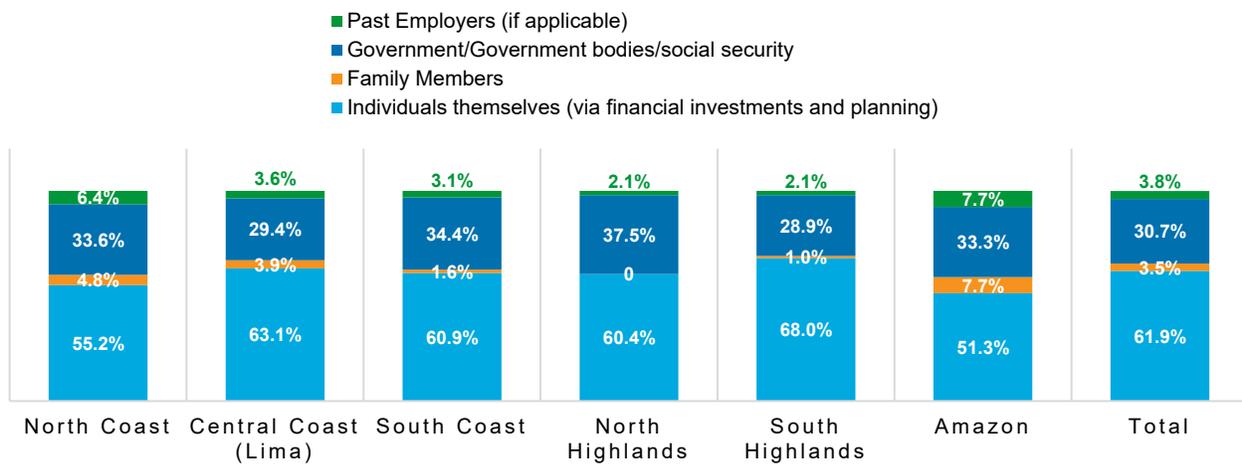
Note: Table 6 shows aggregate results of "strongly agree" and "somewhat agree."

Sixty-two percent of Peruvian households believe that individuals should bear the responsibility for providing their retirement funding.

Overall, half of Latin America consumers consider themselves primarily responsible for providing retirement funds, while the other half tends to rely on the government and Social Security. In a country where citizens must choose between two parallel contributory pension systems (one public and the other private), 6 out of 10 Peruvian consumers consider it their own responsibility to provide retirement funds, while 3 out of 10 rely on the government/Social Security (Figure 20).

Figure 20 — Retirement Financing Responsibility

Question: *Who should be primarily responsible for providing retirement funds?*



Over half of Peruvian consumers consider themselves primarily responsible for providing their retirement funding. Table 7 illustrates the different types of income sources composing the household budgets of retirees and those expected to be received by future retirees.

Most consumers in Peru receive or expect to receive income from one main source during retirement: personal savings and investments (85.5 percent). The high percentages of other income sources mentioned suggest consumers understand that a single source of income may not be sufficient.

The second most mentioned source of income during retirement (79.4 percent) is from a full or part-time job — a trend seen in all other Latin American countries. Whether by need or by choice, consumers

continue or will continue working after retirement, suggesting that for many households retirement may start to mean something other than the action of leaving one's job and ceasing to work. Instead, it may just as well mean continuing to work in some capacity to create an additional source of household income.

Between the public and the private pension systems, the main source of retirement income is from the private system: 73.2 percent versus 55.7 percent. Income from rental property and life insurance scores higher in Peru than in any other country in Latin America, with almost 63 percent and 60 percent respectively.

Table 7 — Planned or Current Source of Income in Retirement

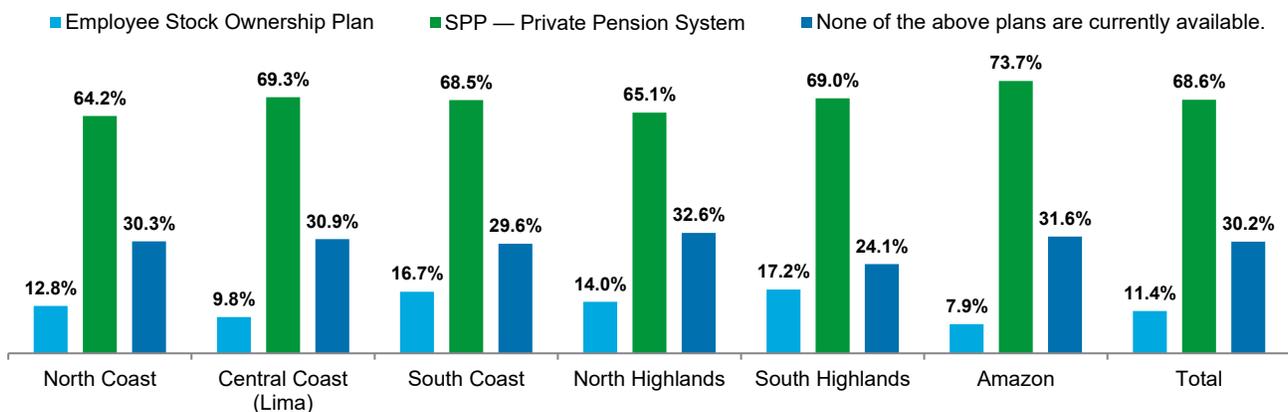
Question: Please indicate which of the following sources of income your household currently receives (if already retired) or expects to receive during retirement.

Source of Retirement Income	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Personal savings and investments	88.8%	84.6%	79.7%	89.6%	90.7%	82.1%	85.5%
Full / Part-time job earnings	84.0%	78.8%	85.9%	77.1%	76.3%	74.4%	79.4%
Private pension system	81.6%	71.2%	65.6%	85.4%	74.2%	74.4%	73.2%
Rental property	72.0%	59.5%	64.1%	68.8%	64.9%	74.4%	62.9%
Life insurance	70.4%	57.6%	71.9%	64.6%	59.8%	51.3%	60.4%
Social Security / Other local pension options	67.2%	51.9%	71.9%	58.3%	53.6%	56.4%	55.7%
Open supplementary pension (private pension plans contracted directly through banks and insurance brokers)	61.6%	52.6%	54.7%	52.1%	55.7%	51.3%	54.1%
Voluntary enterprise annuity / Voluntary plans set up by employer	60.0%	37.2%	37.5%	41.7%	48.5%	56.4%	42.1%
Inheritance from a family member	43.2%	36.6%	39.1%	35.4%	39.2%	51.3%	38.3%
Family member assistance (including children)	39.2%	31.8%	39.1%	50.0%	30.9%	25.6%	33.7%
Reverse mortgage	36.0%	23.1%	21.9%	35.4%	23.7%	25.6%	25.3%

The main retirement savings plans available through employer, work, or profession in Peru are part of the Private Pension scheme (almost 70 percent availability). Three out of 10 workers say there are no plans currently available, the highest percentage in Latin America (Figure 21).

Figure 21 — Available Retirement Savings Plans in Accumulation Phase

Question: Which retirement savings plans are available to you through your current employer, work, or profession? Select all that apply.

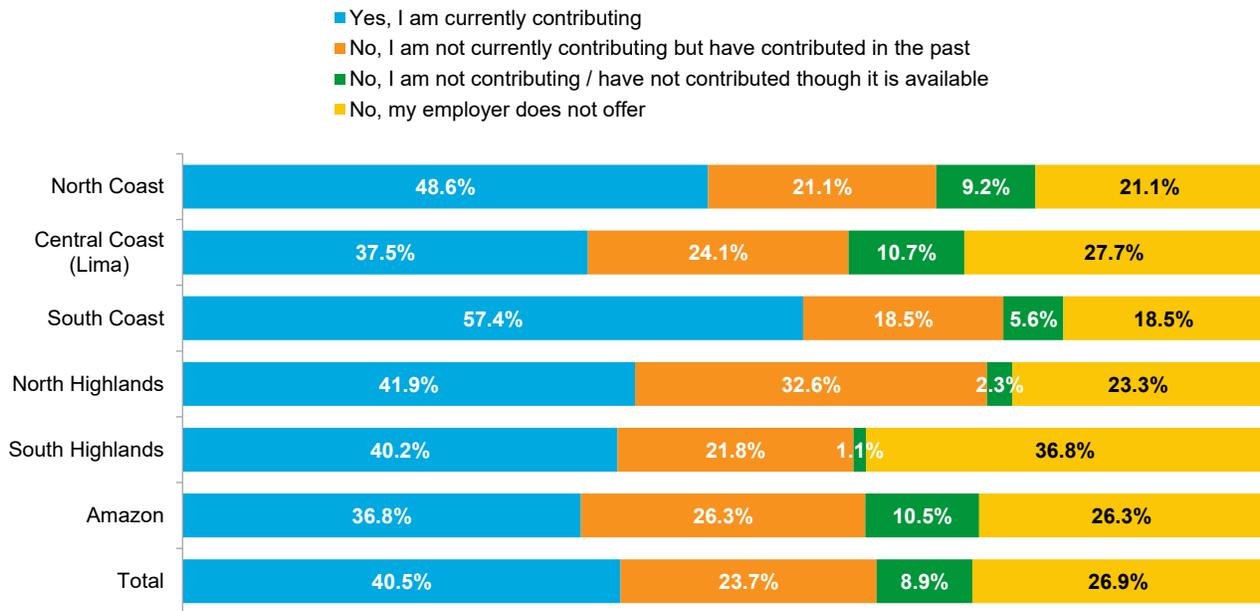


Definition: A defined benefit plan is a supplementary pension plan sponsored by the employer in which the worker's benefits are calculated using a formula that considers factors such as time of service and salary history. A defined contribution plan is a supplementary pension plan in which the worker and/or the employer contributes to the individual account of the participant under the plan. The timing of distribution includes contributions and gains or losses on investments, less administrative and investment management fees. The sponsoring company generally matches the contributions made by the participant. The defined contribution plan has restrictions that control when and how much each employee can withdraw funds without penalties.

Six out of 10 Peruvian workers say they are not contributing to a sponsored retirement savings plan, and 26.9 percent say the option of is not offered. These findings, similar to those in Chile, are extremely disturbing in a country where most workers rely on a private pension system. They are a clear sign of a fragile labor market. The only region in the country where the scenario is the other way around is the South Coast region, where almost 6 out of 10 workers are currently contributing to an employer-sponsored retirement savings plan (Figure 22).

Figure 22 — Contribution Status During Accumulation Phase of Any Employer-Sponsored Retirement Savings Plans

Question: *Are you currently contributing or have contributed to any employer-sponsored retirement savings plans like an enterprise annuity (or provident funds)?*

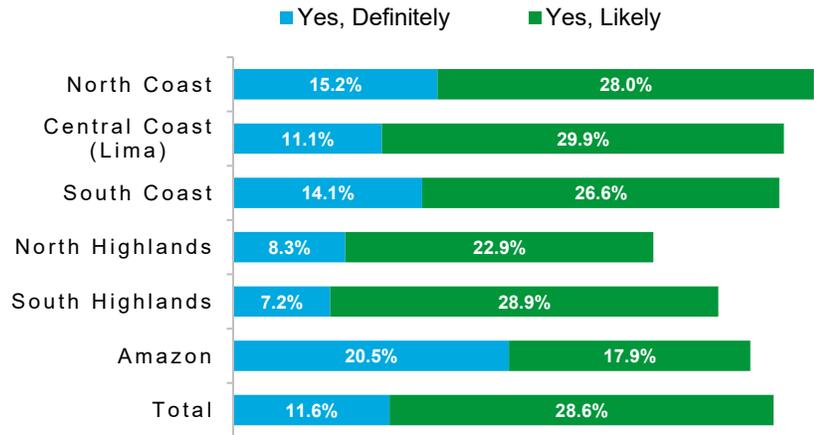


Note: Percentages may not total 100 percent due to rounding.

Overall, workers and preretirees in Peru do not believe that income from employer-sponsored and social pensions will be enough to provide for basic living needs in retirement. In fact, the country scores second-least optimistic in Latin America (after Chile). Only 40.2 percent Peruvian overall workers are optimistic about the likelihood, compared to Latin America’s most optimistic countries, Brazil (55 percent) and Mexico (54 percent). The Amazon region of Peru is the least optimistic in the country. Only 20 percent of those in the Amazon region believe their pensions (whether public or private) do or will cover basic living expenses in retirement, compared to 43 percent in the North Coast (Figure 23).

Figure 23 — Income From Employer-Sponsored DB and Social Pensions Likely to Cover Basic Living Expenses in Retirement

Questions: *If retiree, is the amount of income obtained from the social pension and employer-sponsored DB pension enough to provide for your basic living needs in retirement? If worker, do you expect the amount of income obtained from the social pension and employer-sponsored DB pension enough to provide for your basic living needs in retirement?*



Note: Answer options were: "Yes, Definitely," "Yes, Likely," "No, Unlikely," "No, Definitely Not," "Don't Know." Only "Yes, Definitely" and "Yes, Likely" results are shown above.

A corporate annuity with tax benefits is the preferred strategy to generate income from retirement savings.

Peruvian consumers plan mainly to generate income from retirement savings through a corporate annuity with a tax benefit (44.4 percent). The second-most-preferred strategy is purchasing a product to convert savings into guaranteed lifetime income (31 percent), followed by withdrawing interest and dividend earnings only (28 percent).

Real estate strategies to generate income from retirement savings are strengthening as Latin America’s housing market and infrastructure evolves. Three out of 10 Peruvian households have a real-estate-related strategy for generating retirement income (Table 8).

Table 8 — Strategy for Generating Income in Retirement

Responding to the question: *Which of the following best describes how your household plans to generate income from retirement savings?*
Please select all that apply.

Withdrawal Preferences	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Withdraw some principal and some interest on a regular basis	11.2%	11.1%	17.2%	14.6%	11.3%	12.8%	11.7%
Withdraw some principal and some interest on an occasional basis, or when needed	24.8%	19.3%	21.9%	25.0%	19.6%	15.4%	20.3%
Withdraw only interest and dividend earnings, but not withdraw any principal	28.8%	27.7%	31.3%	31.3%	22.7%	33.3%	28.0%
Buy or look for a product that will convert some or all of household savings into guaranteed lifetime income	29.6%	32.9%	37.5%	29.2%	22.7%	17.9%	31.0%
None. My household has no intention of using retirement savings for income	9.6%	12.1%	12.5%	14.6%	9.3%	10.3%	11.6%
Real Estate and Annuities							
A corporate annuity with a tax benefit	50.4%	42.1%	46.9%	52.1%	46.4%	46.2%	44.4%
Invest retirement savings in property and generate rental income	8.8%	9.0%	7.8%	12.5%	8.2%	5.1%	8.9%
Opt for a reverse mortgage	13.6%	18.8%	23.4%	25.0%	23.7%	15.4%	19.1%
Temporary private income/private income	8.8%	10.9%	7.8%	4.2%	7.2%	10.3%	9.8%
Don't know	8.8%	8.9%	6.3%	8.3%	6.2%	10.3%	8.5%

Note: The first three results by market are highlighted for easy reference.

In addition to identifying investment preferences, it is also important to understand when consumers plan to retire and whether their savings are sufficient to fund their retirement needs. The industry also needs to understand the consumers' perspective on the time needed to save and invest for retirement, how many years they expect retirement to last, and their life expectancy at age 60.

Most Peruvians are not early savers/investors for retirement. Only 25 percent start or plan to start saving and investing around age 25 and plan to do so for 40 years until reaching current full retirement age of 65, regardless of continuing or not to work after formal retirement (Figure 24).

Figure 24 — Retirement Savings/Investment Period

Questions: *At what age do you expect to retire? If retiree, at what age did you start saving/investing for retirement? If working, how old do you expect to start saving/investing for retirement?*

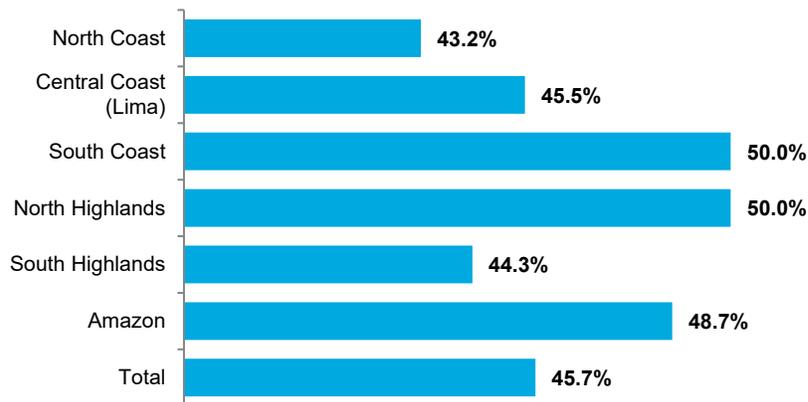
Chile		
Started/will start saving/ for retirement:	Years to save/invest:	Actual and expected retirement age
25% at age 25	40	35.3% at age 65

Forty-five percent of Peruvian consumers regret starting late saving for retirement.

Workers in Peru show one of the lowest levels of regret for delayed retirement savings in Latin America, behind only Argentina, and they start saving and investing about five years later than in other countries of the region (Figure 25).

Figure 25 — It Is Common to Postpone Saving and Investing for Retirement

Question: *Do you agree with this statement: "I regret I started saving and investing for retirement a bit late?" Results reflect responses of "Yes."*

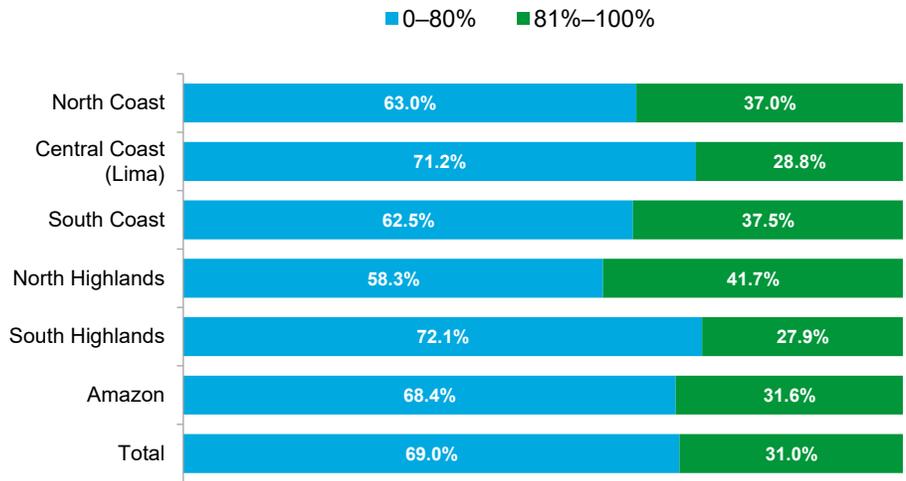




By age 60, almost 7 out of 10 consumers expect to have less than 80 percent of their total retirement funds to sustain a comfortable retired life, while 3 out of 10 expect to have something between 81 percent and 100 percent (Figure 26).

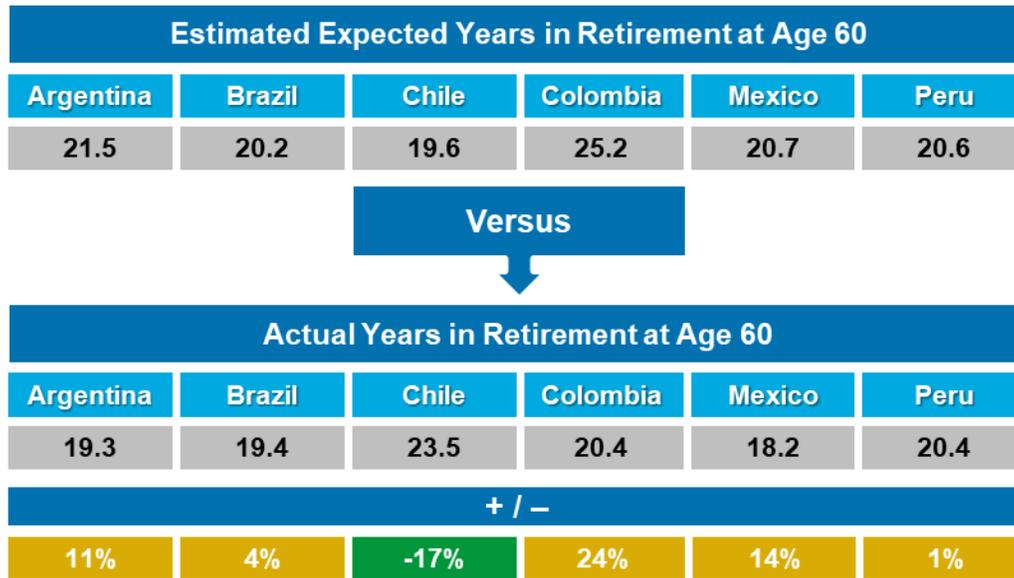
Figure 26 — Expected Percentage of Total Retirement Funds

Question: *What percentage of total retirement funds (that you may need to sustain a comfortable retired life) do you anticipate having when you turn 60 years old?*



Consumers generally tend to miscalculate life expectancy at age 60. However, in the case of Peru, consumers' perception is unusually accurate (even at a regional level). Peruvians expect to live an additional 20.6 years from age 60 onwards, compared to the current life expectancy of 20.4 additional years (Figure 27).

Figure 27 — Expected Life Expectancy Versus Actual Life Expectancy at Age 60



Note: For comparison purposes, we used data from the 2035-2040 UN Population cut period, considering the age groups and quotas used in the study.

Identifying consumers' concerns about retirement risks is of great importance for both public and private sectors to identify what needs to be done to address these issues ahead of time.

Eight out of 10 Peruvians are mostly concerned about two specific retirement risks: that a chronic illness may drain their lifelong savings and that inflation may devalue their savings. The hyperinflation crisis of the 1987–1990 period or the most recent global financial crisis may account for these concerns (Table 9).

Table 9 — Major Retirement Risks Concerns

Question: *How concerned are you about each of the following during retirement?*

Risks	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Longevity Risks							
The possibility that you or your spouse/partner will outlive your assets	73.6%	65.3%	68.8%	58.3%	73.2%	71.8%	67.2%
Providing for your spouse/partner if you should die first	72.0%	69.0%	57.8%	81.3%	78.4%	79.5%	70.5%
Providing for you if your spouse/partner should die first	78.4%	65.7%	59.4%	68.8%	67.0%	71.8%	67.4%
Health and Long-Term Care Risks							
Providing for healthcare costs beyond social insurance medical supplement	77.6%	80.7%	76.6%	89.6%	81.4%	82.1%	80.6%
Finding available long-term care/nursing home care	63.2%	66.0%	67.2%	64.6%	61.9%	66.7%	65.3%
A chronic illness may drain lifelong savings	86.4%	83.3%	78.1%	91.7%	83.5%	87.2%	83.9%
Caring for elderly people	71.2%	70.1%	68.8%	75.0%	74.2%	74.4%	70.9%
Public Policy Risks							
The government or company will reduce pension benefit	73.6%	70.9%	64.1%	75.0%	66.0%	79.5%	70.8%
The government or company will reduce health or medical insurance benefits	79.2%	74.3%	71.9%	79.2%	82.5%	87.2%	76.3%
Aging society will make it harder for the government to provide for the elderly	68.8%	68.7%	57.8%	79.2%	72.2%	74.4%	69.1%
Economy and Market Risks							
The value of savings and assets might not keep up with inflation	81.6%	81.0%	73.4%	83.3%	77.3%	84.6%	80.5%
Tax increases	78.4%	76.3%	71.9%	83.3%	78.4%	89.7%	77.3%
A prolonged stock market downturn	72.0%	68.5%	57.8%	79.2%	68.0%	79.5%	69.2%
A decline in interest rates	76.8%	77.4%	73.4%	75.0%	74.2%	76.9%	76.7%
Increase in inflation	81.6%	81.9%	81.3%	89.6%	88.7%	92.3%	83.3%
Continue working after retirement	79.2%	75.7%	68.8%	79.2%	79.4%	92.3%	76.8%

Table 9 — Major Retirement Risks Concerns (cont'd)

Question: *How concerned are you about each of the following during retirement?*

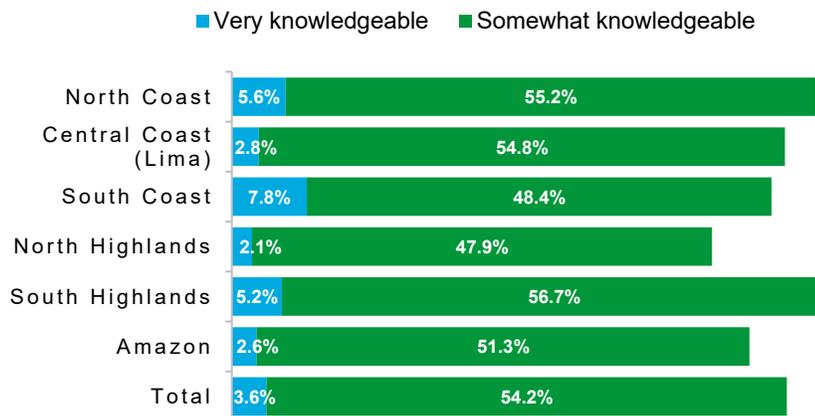
Risks	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Family Risk, Heirs							
My child/children are NEETs group (neither go to college nor go to work and remain financially dependent on parents even when they are adults).	46.4%	30.5%	32.8%	45.8%	41.2%	48.7%	35.1%
Not yet started planning for retirement	70.6%	63.8%	55.6%	67.4%	72.4%	63.2%	65.1%
Not being able to leave money to my children or other heirs	67.2%	58.9%	46.9%	64.6%	66.0%	76.9%	60.8%
My child/children may not take care of me and my spouse during retirement	68.8%	57.3%	56.3%	58.3%	61.9%	71.8%	59.7%
Inability to find or maintain employment in retirement	72.8%	68.8%	64.1%	75.0%	74.2%	71.8%	70.0%

Note: This table shows consolidated results of answers "major concerns" and "minor concerns."

Almost 6 out of 10 Peruvians rate themselves very or somewhat knowledgeable about investments or financial products. Although that is a fair score, it requires substantial improvement in a country where most of its citizens intend to use personal savings and investments as the main source of income during retirement. A solid understanding of financial products is a must when it comes to retirement planning (Figure 28).

Figure 28 — Self-assessment of Financial Knowledge

Question: *In general, how knowledgeable do you think you are about investments or financial products?*

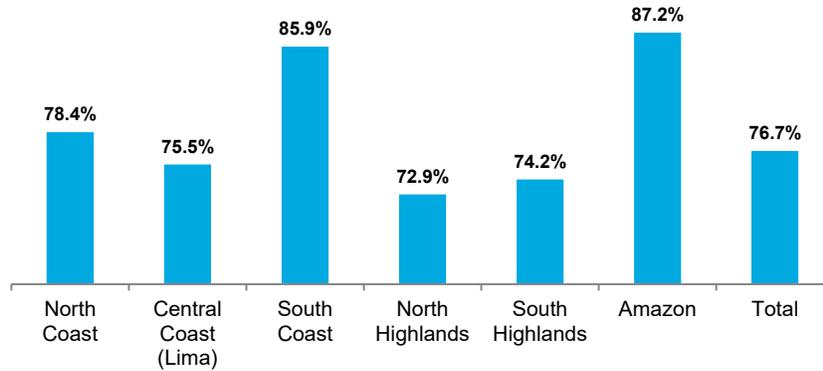


Note: Answer options were: "Very knowledgeable," "Somewhat knowledgeable," "Not very knowledgeable," and "Not at all knowledgeable." Only "Very" and "Somewhat knowledgeable" results are shown above.

Seven out of 10 Peruvian consumers expressed their willingness to convert a portion of their assets into a lifetime-guaranteed annuity in retirement, knowing that they will usually no longer have access to the converted assets. Willingness is higher in the Amazon and South Coast of Peru (Figure 29).

Figure 29 — Willingness to Convert a Portion of Assets Into a Lifetime-Guaranteed Annuity in Retirement

Question: Annuities can provide a lifelong income stream in exchange for a premium payment. Individuals usually no longer have access to the assets used to pay for the annuity once it is purchased. Would you consider converting a portion of your assets or an additional portion of your assets into a lifetime-guaranteed annuity in retirement?

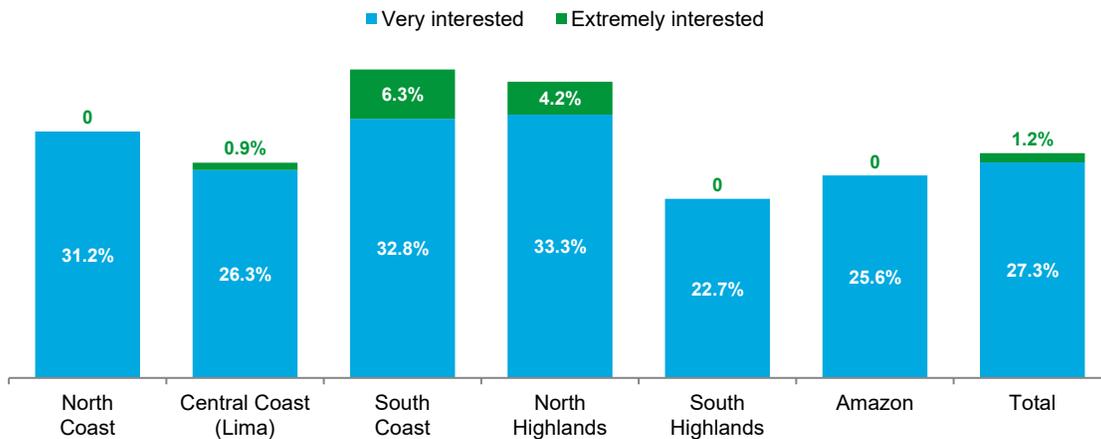


Note: Only "Yes" answer results are shown above.

The option to defer taxes was attractive for Peruvian consumers considering the purchase of a tax-deferred annuity. Three out of 10 consumers said they were very or extremely interested in this type of product, especially in the South Coast and North Highlands regions (Figure 30).

Figure 30 — Consumer Interest in Purchasing a Tax-Deferred Annuity

Question: A tax-deferred annuity is a product, issued by a life insurance company, that allows you to save money for retirement. Taxes on earnings are not paid until retirement and withdrawals begin. Annuities also offer the ability to convert the balance into monthly income payments for life. If such products were available in your market, how interested would you be in purchasing one?



Note: Answer options were: "Not at all interested," "Somewhat interested," "Very interested," and "Extremely interested." Only "Very" and "Extremely interested" results are shown above.



Digital channels, along with family, friends, or co-workers are the preferred sources of information on investments, financial products, or retirement planning.

The combination of the urgent need and the keen interest of consumers for information on finance and retirement planning makes it even more important for the financial services industry to refine its approach. This study identifies behaviors and perceptions related to retirement planning and product preferences. Consumers often consult different sources of information before they make the decision to buy annuities and other financial products for retirement income.

In Peru, where many people plan to retire without the help of professional retirement planning, it is extremely important for the industry to provide information that is easy to understand and easy to find. It is equally critical that the information is accurate and helps consumers take action for a positive outcome.

Digital channels have become one of the popular sources of information for Chilean consumers, and nearly 5 out of 10 access financial sites for data and knowledge. In fact, websites are the favorite option, especially among younger generations. Therefore, instead of continuing to offer only the traditional methods of communication and education, such as workshops, seminars, television, radio or newspaper messaging, the industry needs to rethink how to spread information across the broad reach of the internet (Table 10).

Table 10 — Source of Information on Investments, Financial Products, or Retirement Planning

Question: *Where do you obtain information on investments, financial products, or retirement planning? Select all that apply.*

Source	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Workshops and/or seminars	15.2%	8.3%	10.9%	12.5%	9.3%	12.8%	9.8%
Booklets, pamphlets, or other written materials provided by employer	16.0%	12.8%	28.1%	10.4%	16.5%	10.3%	14.3%
My own financial advisor/planner/insurance agent	15.2%	17.3%	10.9%	18.8%	13.4%	12.8%	16.2%
Employer (e.g., human resources or benefits department)	13.6%	11.2%	12.5%	12.5%	14.4%	17.9%	12.2%
Representatives from the company managing my employer's defined contribution retirement savings plan	17.6%	19.2%	20.3%	22.9%	15.5%	2.6%	18.2%
Website with information on my specific retirement account	37.6%	30.5%	28.1%	39.6%	21.6%	17.9%	30.3%
Social media/networking websites	32.0%	26.3%	32.8%	41.7%	27.8%	38.5%	28.8%
Mobile apps	17.6%	10.3%	10.9%	8.3%	7.2%	15.4%	11.0%
Family, friends, or co-workers	25.6%	36.9%	32.8%	33.3%	38.1%	25.6%	34.8%
Internet/financial websites	46.4%	47.4%	53.1%	62.5%	40.2%	56.4%	48.0%
Websites, other	39.2%	38.2%	45.3%	43.8%	36.1%	43.6%	39.0%
Books, magazines, and newspapers	15.2%	21.8%	23.4%	27.1%	23.7%	12.8%	21.2%
Television or radio programs	19.2%	16.5%	17.2%	16.7%	16.5%	20.5%	17.0%
From nowhere, I do not know where	4.8%	7.2%	1.6%	4.2%	4.1%	10.3%	6.2%

Note: This is a multiple answer question.

Financial websites are the preferred source of information for consumers.

For 20.4 percent of Peruvian consumers, information obtained from financial websites is very useful and is the first option for obtaining information about a product. Second comes the opinion of trusted family, friends, and co-workers. Although the preference for direct contact with a financial advisor/planner/insurance agent is much lower (10.4 percent), consumers rate these channels as "very useful" also. In this channel are found trained professionals with solid product knowledge, delivering information in a clear and easy-to-understand manner. The increased experience of the value of a human touch and face-to-face interaction cannot be ruled out. The two preferred channels complement each other and already work in a kind of multichannel symbiosis, where online information and attention becomes a lead for a contact with a professional (Table 11).

Table 11 — Usefulness of Information Sources

Question: *Which information source did you find the most useful?*

Source	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Internet/financial websites	14.3%	20.8%	20.6%	21.7%	17.2%	40.0%	20.4%
Family, friends, or co-workers	12.6%	13.1%	12.7%	10.9%	19.4%	2.9%	13.1%
Websites other than financial	16.0%	11.9%	11.1%	13.0%	11.8%	5.7%	12.2%
Website with information on my specific retirement account	12.6%	11.2%	12.7%	10.9%	10.8%	8.6%	11.3%
My own financial advisor/planner/ insurance agent	8.4%	11.7%	4.8%	13.0%	7.5%	8.6%	10.4%
Representatives from the company managing my employer's defined contribution retirement savings plan	6.7%	9.1%	9.5%	13.0%	6.5%	2.9%	8.5%
Social media/networking websites	9.2%	5.2%	11.1%	8.7%	11.8%	17.1%	7.4%
Employer (e.g., human resources or benefits department)	5.0%	3.4%	4.8%	0	4.3%	5.7%	3.7%
Books, magazines, and newspapers	0.8%	4.2%	1.6%	2.2%	3.2%	5.7%	3.5%
Television or radio programs	1.7%	2.7%	4.8%	4.3%	3.2%	2.9%	2.8%
Workshops and/or seminars	4.2%	3.0%	1.6%	0	2.2%	0	2.7%
Booklets, pamphlets, or other written materials provided by employer	5.0%	1.8%	1.6%	2.2%	1.1%	0	2.1%
Mobile apps	2.5%	0.7%	3.2%	0	1.1%	0	1.1%
Other	0.8%	1.2%	0	0	0	0	0.8%

Note: Table 11 answer options align with those for the question (Table 10) on the preferred method for information on investments, financial products, or retirement planning. Respondents were allowed to choose only one option. Results below 5 percent represent an option chosen by a sample of 10 or fewer.

Across regions, consumers indicated a preference for more conservative product features such as guaranteed income, capital preservation, and control over how investments are managed.

The study also asked participants to indicate, apart from cost issues, preferences regarding product characteristics or financial investments that could be used to generate retirement income. Unsurprisingly, the preference for guaranteed-lifetime income was one of Peruvian consumers' (5 out of 10) most preferred features, followed by inflation-adjusted income, income with the potential for growth with market, principal protection, fixed returns, and ability to control how investments are managed (Table 12).

Table 12 — Most Important Characteristics of a Financial Product in Retirement Planning

Question: *Aside from issues of cost, when selecting among financial products or investments that could be used to create income in retirement, which of the following features are most important to you?*

Feature	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Income guaranteed for life	58.4%	58.4%	62.5%	60.4%	53.6%	61.5%	58.4%
Income adjusted for inflation	43.2%	49.7%	48.4%	50.0%	44.3%	30.8%	47.6%
Income remains the same or fixed throughout retirement	44.0%	42.1%	53.1%	54.2%	47.4%	51.3%	44.4%
Income has the potential for growth with market	55.2%	59.7%	68.8%	52.1%	54.6%	66.7%	59.1%
Income continues after I or my spouse dies	49.6%	50.0%	59.4%	54.2%	52.6%	56.4%	51.2%
Income amount can be changed as needs change	53.6%	51.1%	56.3%	41.7%	48.5%	46.2%	50.8%
Income can be converted into a lump sum	45.6%	31.8%	48.4%	33.3%	39.2%	28.2%	35.2%
Initial investment amount is preserved or protected	48.8%	55.5%	59.4%	45.8%	48.5%	56.4%	53.8%
Control over how investments are managed	57.6%	51.1%	64.1%	47.9%	50.5%	66.7%	53.1%
Guaranteed return on investments	53.6%	57.0%	64.1%	60.4%	55.7%	59.0%	57.1%
Money for heirs or charities when I die	35.2%	25.7%	39.1%	35.4%	27.8%	30.8%	28.6%
The ability to make withdrawals in excess of regular payment	42.4%	32.6%	42.2%	35.4%	38.1%	30.8%	35.0%
Option to receive predefined lump-sum or annuity payment in foreign currency	48.8%	41.9%	54.7%	56.3%	46.4%	35.9%	44.4%
Single premium	36.0%	30.2%	45.3%	35.4%	38.1%	28.2%	32.8%
Level premium	32.0%	28.2%	34.4%	35.4%	27.8%	23.1%	29.2%
Stepped-up premium	41.6%	34.3%	50.0%	35.4%	40.2%	33.3%	36.7%
Tax benefit	39.2%	29.3%	39.1%	29.2%	33.0%	33.3%	31.6%
Option to withdraw entire money as lump sum and self manage	44.8%	46.4%	50.0%	45.8%	52.6%	43.6%	46.9%

Note: The following options were given to respondents: "Not a bit important," "A little important," "Very important," "I do not understand this feature." The above results are the percentage of respondents who selected Very important. Also note that the first three are highlighted for easy reference.

Definitions — Single Premium: an insurance plan in which a lump sum of cash is paid in advance to guarantee payment to beneficiaries. Level premium: it is a type of term life insurance for which the premiums remain the same throughout the duration of the contract. Increasing Premium: the insurance premium is calculated based on the insured's age, which means that the younger they are, the lower the cost and premiums will be, and the premiums will increase over time.

Banks have emerged as the preferred channel for buying retirement financial products, followed by insurance companies.

Table 13 — The Five Preferred Channels for the Purchase of Retirement Products

Question: *If you were to buy a product with the features you selected, where you would like to buy it from:*

Channel	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Bank	38.4%	31.6%	34.4%	35.4%	37.1%	43.6%	33.8%
Broker/financial advisor (sells multiple products)	8.8%	10.7%	12.5%	12.5%	11.3%	10.3%	10.7%
Insurance company agent	3.2%	6.1%	4.7%	8.3%	7.2%	0	5.6%
Pension company agent	5.6%	7.8%	10.9%	6.3%	6.2%	7.7%	7.5%
Phone call	0.8%	0.9%	3.1%	2.1%	0	0	1.0%
Post office	4.0%	2.0%	1.6%	0	1.0%	0	2.0%
Insurer's website	4.0%	4.5%	1.6%	4.2%	6.2%	2.6%	4.3%
Insurance aggregator's website	6.4%	4.8%	7.8%	6.3%	4.1%	5.1%	5.2%
Mobile apps	0.8%	1.4%	4.7%	0	3.1%	0	1.6%
Other channel	0	2.0%	0	0	4.1%	2.6%	1.8%
Insurance company	28.0%	28.0%	18.8%	25.0%	19.6%	28.2%	26.5%

Maintaining physical health and well-being is a priority for most Peruvian consumers.

All Peruvians have unique aspirations for their retirement. They (7 out of 10) mainly aspire to maintain physical health and well-being. They (almost 6 out of 10) also hope to find a solution for care in their final years, perhaps in a situation of total dependence. In addition, they express a strong desire to spend more time with friends and family. Few expressed the desire to move from their homes to retirement condominiums or retirement communities.

Table 14 — Aspirational Aspects in Retirement

Question: *Many people have specific hopes and aspirations for their retirement. How important is it for you to do each of the following in retirement?*

Aspiration	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Maintain my physical health and well-being	72.8%	78.5%	71.9%	72.9%	78.4%	76.9%	77.0%
Solution for care in final years of potentially total dependence	46.4%	59.7%	59.4%	52.1%	59.8%	51.3%	57.3%
Spend more time with friends and family	56.8%	53.9%	54.7%	45.8%	46.4%	64.1%	53.6%
Travel more	43.2%	41.6%	42.2%	31.3%	44.3%	48.7%	41.9%
Financially support my family	42.4%	38.0%	34.4%	41.7%	39.2%	43.6%	38.8%
Learn a new skill/hobby	32.0%	37.2%	34.4%	39.6%	38.1%	48.7%	37.0%
Remain living in current residence	36.0%	34.1%	39.1%	33.3%	35.1%	33.3%	34.7%
Save to leave a legacy	36.0%	27.9%	25.0%	25.0%	27.8%	41.0%	29.1%
Moving to another area in order to have adequate climate, expenses, and facilities	29.6%	27.9%	20.3%	27.1%	28.9%	28.2%	27.7%
Get involved with some type of group/activity/community for retired persons	20.8%	19.3%	15.6%	10.4%	21.6%	28.2%	19.4%
Move to a nursing home	8.0%	9.7%	12.5%	4.2%	11.3%	10.3%	9.6%
Move to a community for retired persons	8.8%	7.5%	10.9%	4.2%	5.2%	7.7%	7.5%

Note: the results represent "very important" responses of the general options: "not important," "important," and "very important."



Industry Opportunities

The industry has a significant opportunity to help solve longevity financing problems by developing and delivering some of the products that consumers have identified in this study. The findings of this consumer survey point to meaningful opportunities for the financial services industry to leverage:

- **Retirement funding responsibility:** Just under two thirds of consumers in Peru accept personal responsibility for providing for retirement. Slightly more than 3 out of 10 young workers accept this responsibility, compared to 2 out of 10 preretirees and 3 out of 10 retirees. This finding points to a changing mindset, where younger generations may be willing to take retirement planning action without depending on the government. The industry needs to seize this opportunity and help younger generations in Peru plan and build retirement savings from an earlier age.
- **Retirement Planning:** About a quarter of consumers (23.3 percent) indicated they do not work with any type of financial professional — especially in the Amazon and North Coast regions. Moreover, 7 out of 10 Peruvian households do not have a formal written plan to manage income, assets, and expenses during retirement. The industry, along with other stakeholders, needs to intervene and educate future retirees on how to plan for retirement and to make the most of available resources.
- **Main aspiration:** Maintaining physical health and well-being means maintaining independence and autonomy while managing health costs in retirement. Those are worthy aspirations, and the industry should give a helping hand by educating consumers on how to plan for retirement and developing new products and services that offer solutions for their final years when they may be completely dependent.
- **Procrastination:** While almost two thirds of Peruvian consumers accept responsibility for financing their retirement, they nevertheless postpone this process; almost 5 out of 10 regret having delayed or not begun saving for retirement. In fact, most take no appropriate action, instead prioritizing short-term expenditures — leading to the high levels of personal debt observed in recent years. At 34 percent, the feeling of regret is higher among young workers and retirees. These “regrets” also suggest that people miscalculate how much time they need to save and invest. They certainly need the professional advice the industry has to offer on these complex issues. Although people are willing to take responsibility, they may not have enough “financial knowledge” to succeed. Therefore, the industry needs to focus on guiding people on when, where, and how to start saving for retirement.
- **Loss of purchasing power:** Sixty-nine percent of respondents in Peru anticipate a gap in retirement funds when they turn age 60, and only 31 percent expect to have more than 81 percent of the funds they need to fund a comfortable retirement. Consumers from the Central Coast (Lima province) and South Highlands regions are less optimistic about their prospects. The industry has products to fill the gap and should increase its role and participation in retirement income planning.

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- **Life expectancy:** Unlike other Latin Americans, Peruvians are accurate in predicting their life expectancy. Overall, they expect to live an additional 20.6 years from age 60, closely predicting their current and actual life expectancy of an additional 20.4 years. This is a positive finding and one that the industry should use to work closely with consumers on realistic retirement planning.
 - **Willingness to buy annuities:** Seven out of 10 consumers in Peru, especially in the Amazon and South Coast regions, expressed a willingness to convert a portion of their assets into annuities to generate lifetime retirement income. Interest is particularly high among pre-retirees in the South Coast and North Highlands. The fact that consumers are willing to invest in these products, if they fit their specific needs, represents a potentially historic opportunity for the industry.
 - **Product characteristics:** Consumers expressed strong preferences for products with conservative characteristics, along with products that guarantee predictable returns and help preserve capital. In addition, these consumers demonstrated a desire to have control over their investments and the ability to adjust their portfolios.
 - **Distribution:** Consumers across regions prefer face-to-face channels when purchasing a retirement savings product. Banks in particular continue to have the largest market share, much ahead of traditional agency/brokers channels. Online purchasing is still in its infancy, but represents a positive opportunity to experiment and explore. Care should be taken to ensure the customer's online experience is simple and informative without being overwhelming.

Appendix

The *Spotlight on Retirement* study in Peru is part of a collaborative research project between LIMRA and the Society of Actuaries (SOA). With the participation of 1,015 respondents, it identifies consumer perceptions related to retirement in six macro regions of the Peruvian territory: the North Coast, Central Coast (Lima Province, home to the nation’s capital), South Coast, North Highlands, South Highlands, and Amazon. Like the other studies in this series on Argentina, Brazil, Chile, Colombia and Mexico, the study of Peru focused on specific demographic segments: young workers (ages 30–45), preretired (ages 46–60), and retired (ages 60+).

Table A-1 — Respondents by Employment Status

Question: *Are you currently...?*

Employment Status	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Working full time for pay	59.2%	55.1%	65.6%	56.3%	52.6%	66.7%	56.6%
Full time self-employed / family business	22.4%	24.1%	17.2%	25.0%	26.8%	23.1%	23.7%
Working part time	5.6%	7.9%	1.6%	8.3%	10.3%	7.7%	7.5%
Working part time even after formal retirement (i.e., receiving pension and working part time)	4.0%	5.0%	9.4%	4.2%	1.0%	0.0%	4.5%
Working full time even after formal retirement (i.e., receiving pension and working full time)	4.8%	3.3%	1.6%	0.0%	1.0%	0.0%	2.9%
Retired and not working for pay (i.e., receiving pension and not working)	4.0%	4.5%	4.7%	6.3%	8.2%	2.6%	4.8%

Table A-2 — Respondents by Employer Type

Question: *Which of the following best describes your employer...? [IF RETIREE] From what type of employer did you retire?*

Employer	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
The government (including public institutions controlled by the government)	43,2%	30,4%	25,0%	37,5%	33,0%	56,4%	33,2%
A private company (enterprise)	33,6%	41,6%	51,6%	33,3%	39,2%	17,9%	39,7%
Small- or medium-sized enterprise (SME)	7,2%	11,2%	7,8%	12,5%	9,3%	7,7%	10,2%
Own company/family business	16,0%	16,8%	15,6%	16,7%	18,6%	17,9%	16,8%

Table A-3 — Respondents by Household Size

Question: *What is your household size?*

Number in Household	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
1	4.0%	3.3%	4.7%	6.3%	4.1%	0	3.5%
2	7.2%	14.5%	14.1%	12.5%	9.3%	12.8%	12.9%
3	20.0%	23.1%	18.8%	20.8%	21.6%	33.3%	22.6%
4	28.8%	27.7%	37.5%	22.9%	27.8%	25.6%	28.2%
5	22.4%	15.9%	10.9%	16.7%	21.6%	12.8%	16.8%
6	12.8%	7.9%	7.8%	8.3%	12.4%	5.1%	8.9%
7	2.4%	3.1%	1.6%	8.3%	3.1%	5.1%	3.3%
8	0.8%	2.3%	1.6%	0	0	2.6%	1.8%
9	0.8%	0.9%	3.1%	0	0	0	0.9%
10	0	0.5%	0	2.1%	0	0	0.4%
11	0	0.3%	0	2.1%	0	2.6%	0.4%
12	0.8%	0.3%	0	0	0	0	0.3%

Table A-4 — Respondents by Total Monthly Income Before Tax

Question: *Which of the following ranges describes your household's pre-tax total monthly income. Please include any income from employment earnings, investments, interest, dividends, Social Security, pensions, etc.*

Pre-tax Total Monthly Income (S/)*	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
851 – 1,700	0	0	0	0	0	0	0
1,701 – 3,400	47.2%	28.2%	51.6%	43.8%	37.1%	51.3%	34.5%
3,400 – 6,800	33.6%	41.3%	39.1%	25.0%	43.3%	41.0%	39.6%
6,801 – 14,800	18.4%	23.4%	6.3%	25.0%	16.5%	7.7%	20.5%
14,801 – 24,800	0.8%	5.1%	1.6%	6.3%	2.1%	0	3.9%
24,801+	0	2.0%	1.6%	0	1.0%	0	1.5%

*As of February 9, 2020, 1 Peruvian sol equaled 0.30 of a United States dollar.

Table A-5 — Respondents by Current Housing StatusQuestion: *What is your current housing situation?*

Housing Status	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
I own my apartment or house	13.6%	11.8%	10.9%	8.3%	17.5%	5.1%	12.1%
I rent from a landlord	24.0%	24.8%	21.9%	25.0%	21.6%	41.0%	24.8%
Live with parents, other family members, or friends	12.0%	13.9%	10.9%	6.3%	14.4%	10.3%	13.0%
Other	1.6%	2.5%	3.1%	2.1%	1.0%	2.6%	2.3%
Have a mortgage	48.8%	47.0%	53.1%	58.3%	45.4%	41.0%	47.8%

Table A-6 — Respondents by Education LevelQuestion: *Which of the following best describes your highest level of education?*

Education Level	North Coast	Central Coast (Lima)	South Coast	North Highlands	South Highlands	Amazon	Total
Any	0	0	0	0	0	0	0
Primary	1.6%	0	0	0	0	0	0.2%
High school	5.6%	2.0%	1.6%	0	3.1%	5.1%	2.6%
Tertiary non-university	17.6%	17.3%	26.6%	14.6%	15.5%	17.9%	17.6%
College	50.4%	61.1%	46.9%	43.8%	55.7%	51.3%	57.1%
Master or doctorate	24.0%	19.0%	23.4%	41.7%	25.8%	25.6%	21.9%
Other	0.8%	0.6%	1.6%	0	0	0	0.6%



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