

El Salvador

El Salvador: Pension system in 2010

The pension system in El Salvador consists of a privately managed defined-contribution scheme. A guaranteed minimum pension requires 25 years of contributions by the minimum retirement age.

Key indicators

		El Salvador	LAC26
Average income	USD	3 700	61 000
	USD	400	7 000
Public pension spending	% of GDP	1.7	3.1
Life expectancy	At birth	72.3	73.6
	At age 65	18.3	17.4
Population over age 65	% of working-age population	13.9	12.3

Qualifying conditions

The pensionable age is 60 for men and 55 for women with 25 years of contributions. Retirement is also permitted if an individual can claim an annuity equal to 60% of the base earnings for contribution purposes or 160% of the minimum pension. Twenty-five years of contributions are required to qualify for a minimum pension.

Benefit calculation

Defined contribution

Employees and employers contribute 6.25% and 6.75%, respectively, and, of these amounts, 10.3% points (increasing to 10.8% from April 2012) is allocated to individual savings accounts. A maximum of 2.7% (decreasing to 2.2% from April 2012) of earnings for benefit calculation purposes is used to finance disability and survivors insurance and the administrative costs. Benefits can be received as defined benefits, annuities, or a combination of the two.

In the individual savings account system, those who do not meet the minimum requirements to obtain a pension are refunded the balance in their individual accounts. They can elect to receive it in a lump sum or in six annual payments. In the latter case, they have the right to receive health insurance coverage, the cost of which is withheld from the payments.

Targeted

The minimum amount of an old-age and full disability pension in 2010 was USD 143.64, and for partial disability it was USD 100.55.

Variant careers

Early retirement

Early retirement is possible. Employees or self-employed, can claim a pension before reaching retirement age or without having the minimum of 25 years of contributions when the individual pension savings balance is sufficient to finance a pension of 60% or more than the base salary, which is equal to or above 160% of the minimum pension. These pensions are considered early retirement pensions, and the penalty is that they do not carry the government's minimum pension guarantee. There is no age restriction for claiming this pension.

Late retirement

Employees or self-employed persons, can delay claiming a pension after reaching retirement age since the pension is a right that can be exercised at the affiliate's will, and there is no penalty with respect to the old-age pension. If upon reaching retirement age the affiliate has not exercised his/her right and he/she becomes disabled or dies, he/she or their beneficiaries will receive the equivalent of the old-age pension at that moment, absolving the pension management company from any further responsibility. There are no incentives to delay the pension unless a person continues contributing, in which case the account continues to grow.

Personal income tax and social security contributions**Taxation of workers**

No taxes are paid on incomes below USD 2 514.29. Income above that amount up to USD 6 628.57 pay a tax in the amount of USD 57.14 plus 10% above USD 2 514.29; between USD 6 628.57 and USD 20 342.85 the tax rate is 20%; and incomes above USD 20 342.85 are taxed at 30%.

Social security contributions paid by workers

The contribution for health, workmen's compensation and pension is 10.5% of earnings. For the first two, the worker contributes 3% on earnings up to USD 685.71, and for the pension, they pay 6.25% of the declared earnings up to a maximum of earnings for contribution purposes of USD 5 354.52.

Taxation of pensioners

Pensions as personal earnings are exempt from income tax or any other tax rate or municipal tax. Pensions of officials and public or municipal employees are constitutionally protected against taxation.

Social security contributions paid by pensioners

Contributions paid by pensioners are 7.8% for health insurance up to a maximum of USD 685.71.

Indexation of pensions

In the Pension Savings System – of individual accounts – only the minimum pensions are adjusted annually by the Ministry of Finance in the Law on the State Budget, taking into account the relative variation in the minimum wage for contribution calculation purposes and available resources of the central government.

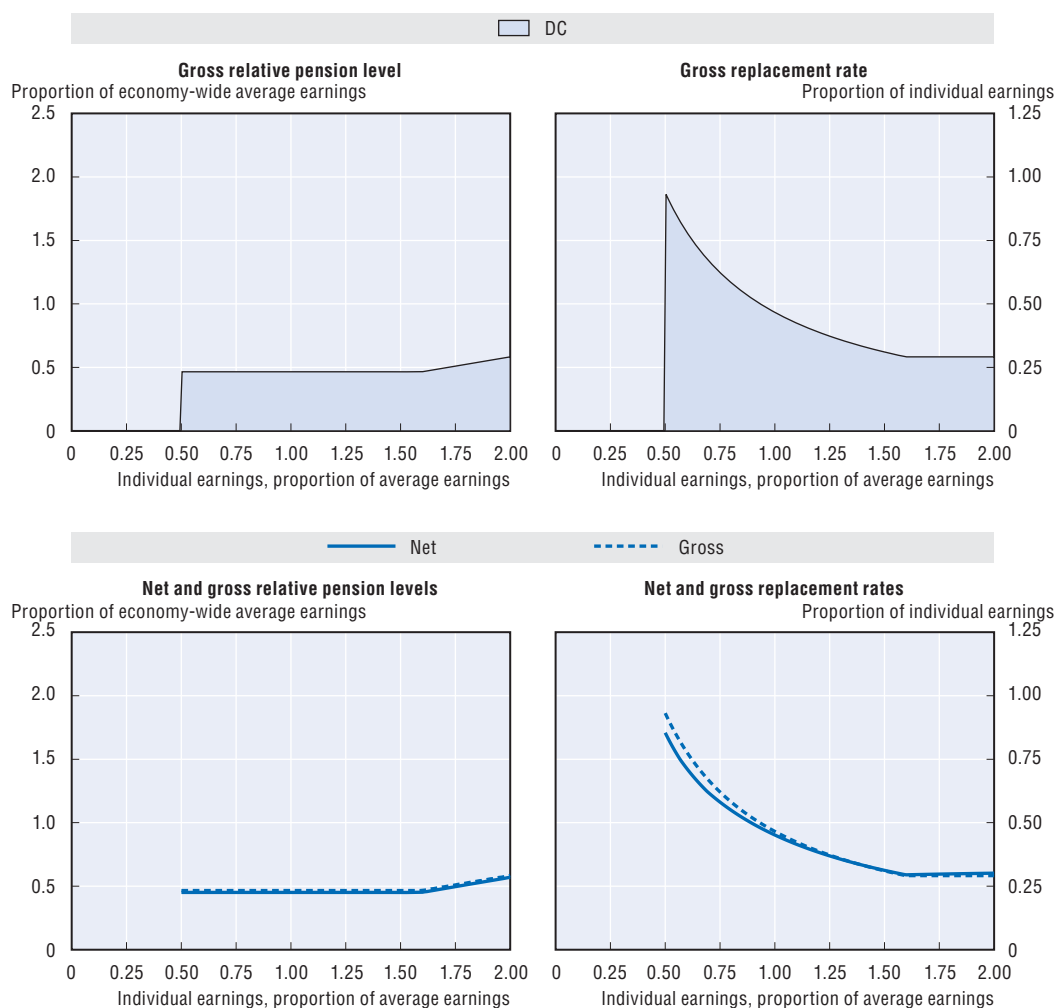
For the fiscal exercise of 2009, starting on 1 January, the monthly pensions of the Public Pension System – the pay-as-you-go system– between USD 130.58 to USD 300.00, were adjusted for inflation by 10%. Additionally, the minimum total old-age and disability pension was set at USD 143.64 per month, and the minimum partial disability pension was set at USD 100.55. These increases were also applied to the both the full and the partial minimum old-age and disability pensions in the Pension Savings System, that is, the defined-contribution system.

Social assistance programmes for old-age population


Social pension

The Rural Solidarity Communities programme assists residents of the country's 32 poorest municipalities. This programme includes a benefit called Universal Basic Pension, consisting of a payment of a pension in the amount of USD 50.00 for people over age 70 who have no other source of income, and who are covered by the Rural Solidarity Communities programme.

Pension modelling results: El Salvador



Men	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1.0	1.5	2.0
Women (where different)						
Gross relative pension level	46.6	46.6	46.6	46.6	46.6	58.3
(% average gross earnings)						46.6
Net relative pension level	45.2	45.2	45.2	45.2	45.2	57.0
(% net average earnings)						45.2
Gross replacement rate	57.5	93.1	62.1	46.6	31.0	29.2
(% individual gross earnings)						23.3
Net replacement rate	54.4	85.4	58.1	45.2	31.2	30.1
(% individual net earnings)						23.9
Gross pension wealth	10.6	17.2	11.5	8.6	5.7	5.4
(multiple of individual gross earnings)	13.0	21.1	14.1	10.6	7.0	5.3
Net pension wealth	10.6	17.2	11.5	8.6	5.7	5.4
(multiple of individual gross earnings)	11.6	18.8	12.5	9.4	6.3	4.7

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