

## INTRODUCTION

A crisis arose in Colombia due to the lack of coverage of pension liabilities by the subnational entities, posing a risk on their financial viability and the protection of the elderly.

FONPET was created as an answer to these serious problems, with excellent results up to this date. The pension liabilities have already been quantified and every entity has allocated its coverage funds in FONPET.

FONPET's duties include collecting and administering funds for the coverage of pensions and allocating funds into the accounts of every Entity. The Ministry of Finance and Public Credit is in charge of this project.

FONPET's financing is obtained from subnational tax revenue and from required National contributions from specific sources: The General System of Shares, The General System of Royalties, Coljugos, etc., some of these established in the 1991 Constitution.

## MATERIALS AND METHODS

In order to quantify the pension liabilities - unknown as of 1999 – the Ministry of Finance and Public Credit was appointed for the design of a unique methodology that should start with the reconstruction of the work history records. For this aim, two computer programs were created:



**PasivoCol** is a system for the retrieval and validation of the entities work history records; it

was distributed for free to the territorial entities in Colombia.



**PasivoNal** system quantifies pension liabilities. Training,

technical assistance and received file backups are performed on a permanent basis. Other applications were also developed to be easily used by the entities.

## RESULTS: FONPET Operation

FONPET consists of several steps: **1)** Annual collection and updating of work history records, **2)** Quantification of pension liabilities, **3)** Savings for the coverage of pension liabilities, and **4)** Dissaving for pension payments and for coverage of the 125% of pension liabilities, as shown in the following diagram.

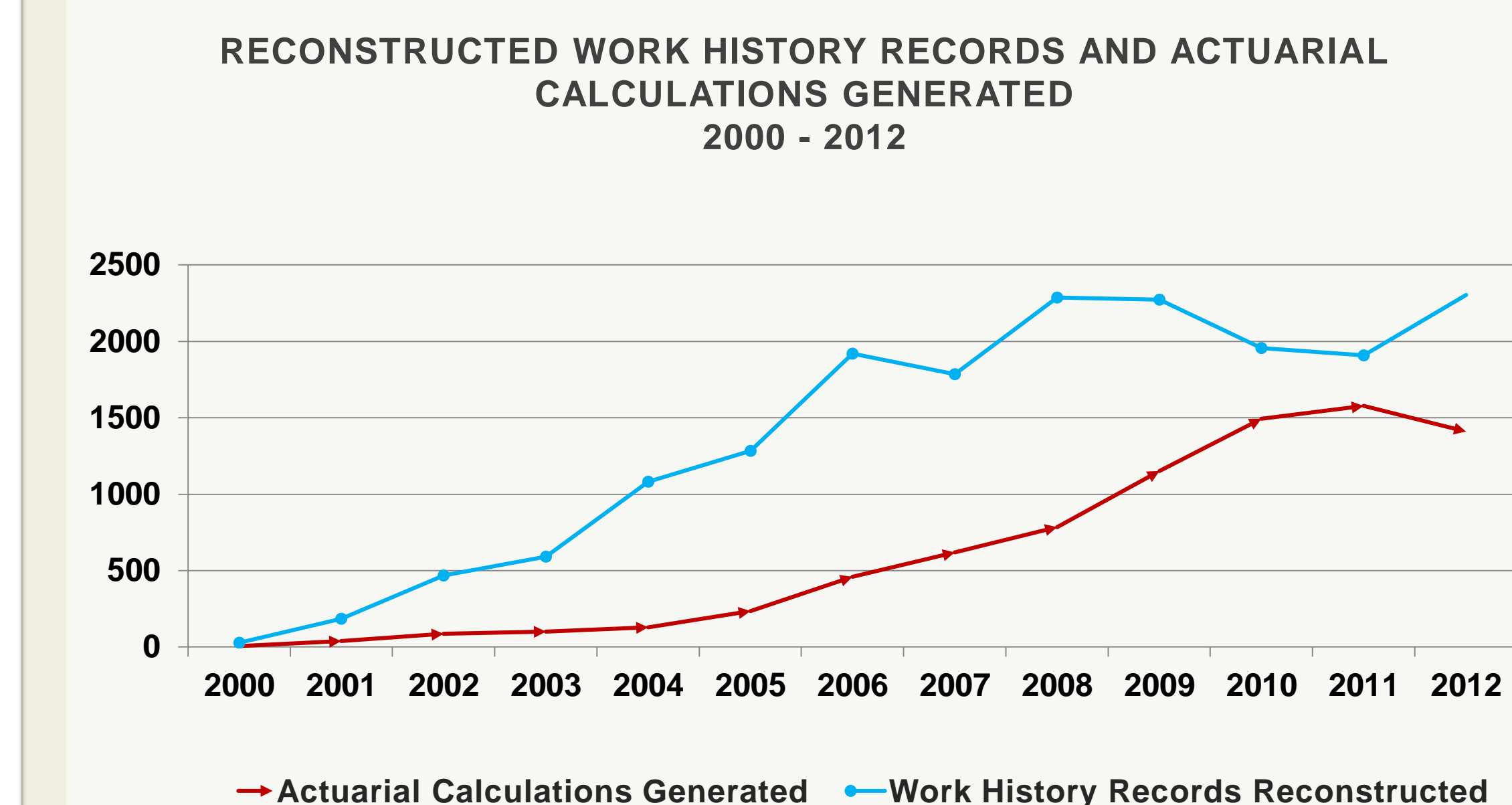


## CONCLUSIONS

The following charts show the advantages of the FONPET project. As of December 2012, after 12 years of operation, the results are highly positive.

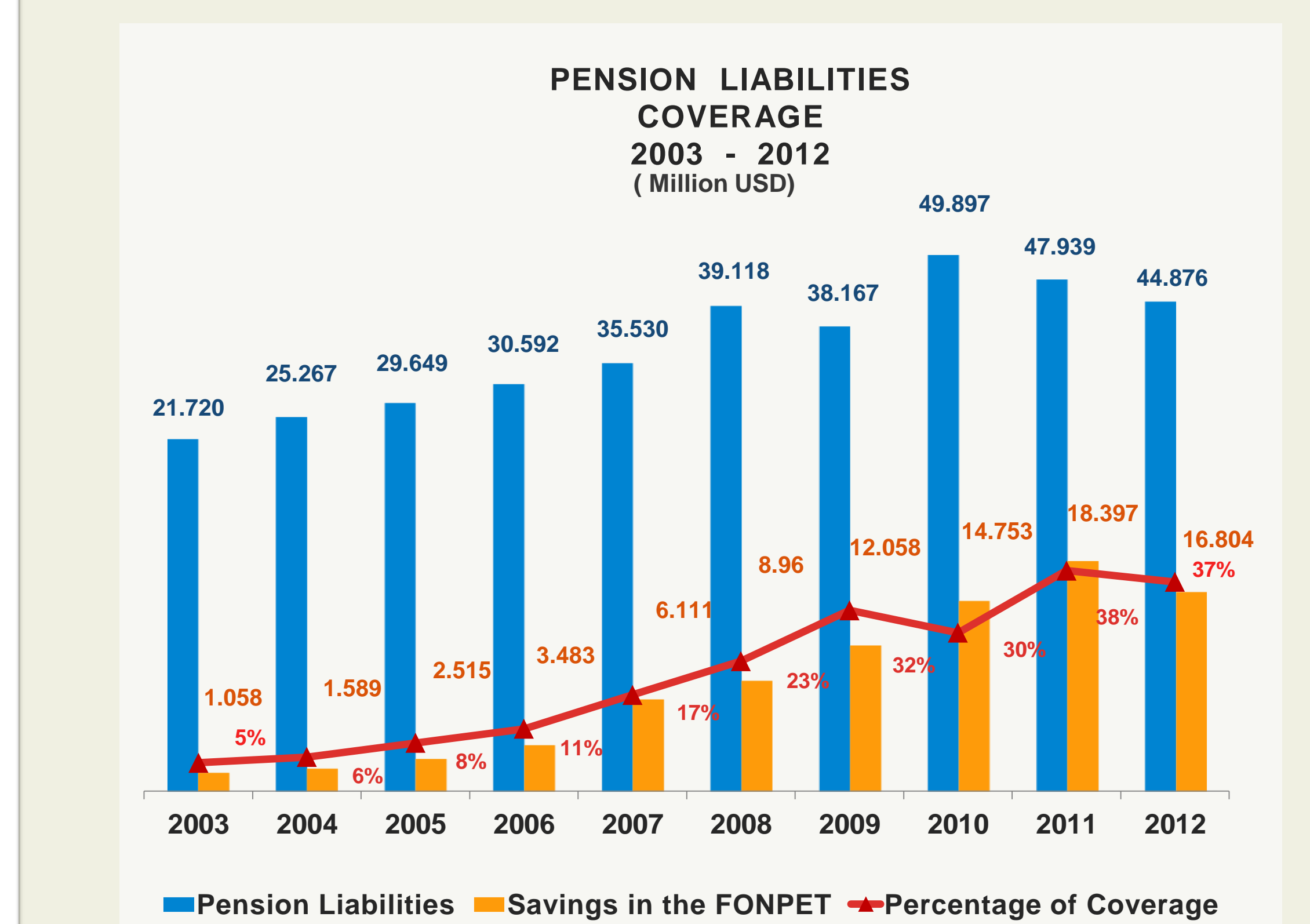
**1** → **100%** 100% of the entities (1133) reconstructed the work history records of their employees

**2** → **94%** 94% of the entities (1056) have an actuarial calculation, even though a magnitude value estimate for all the entities has been in place since the year 2000.



**3** → 35% of entities, approximately 396, have their pension liabilities 125% covered as required by regulations. Furthermore, between 35 to 40 entities (3.5%) were allowed to withdraw surplus funds and still maintain 125% covered.

**4** → The average level of pension liabilities covered up to December 31st, 2012, was 37%, represented by USD \$16,804 Million in FONPET funds and USD \$44,876 Million in pension liabilities, as can be seen in the following chart.



Source: Charts. Ministry of Finance and Public Credit

Note: The information as of December 31, 2013 is in the process of being updated

## ACKNOWLEDGMENTS

- ✓ To the **ICA organizers**, for inviting me to participate with this presentation at the 2014 ICA Congress.
- ✓ To **ARLETTE PRÍAS PINZÓN**, for her collaboration in the design of the illustration of FONPET's operational structure and her suggestions for the presentation.

## POLITICAL DIVISIONS OF COLOMBIA



Colombia is divided in Departments, which in turn are divided in Municipalities.

Total Departments → **32**  
 Total Municipalities → **1101**  
 TOTAL Subnationals → **1133\***

\* Entities with funds in FONPET