Financial Movements in Pension Fund Managers

By : Juan Pablo Arango A.

Santiago Muñoz T.*

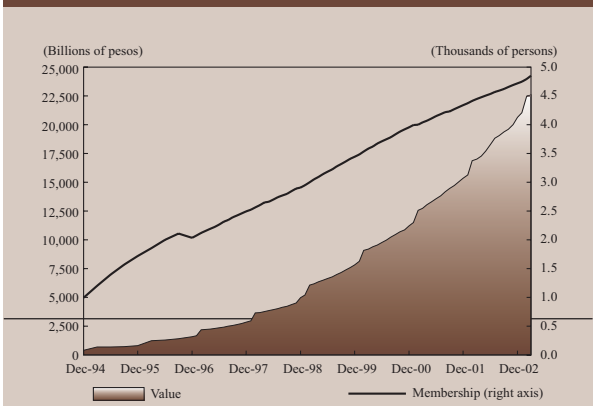
The present Report includes a small, purely descriptive section on other financial-market agents in Colombia that have become important in recent years, providing a review of movements in the private pension funds' main financial variables.

I. Portfolio Growth

The value of funds administered by the *Administradoras de Fondos de Pensiones* (Pension Fund Managers–PFM) has increased dramatically since the creation of these entities in 1993. In March 2003, the investment portfolio of managers of pension and severance-pay funds amounted to 22.6 bn pesos (or 11% of GDP), of which 16.7 bn pesos represented compulsory pensions (Figure 1). Moreover, the PFM's portfolio made up 25.13% of the financial system's assets in March 2003.

The growth in portfolio value has proceeded at much the same pace as expansion in the number of pension-fund members. Membership to March 2003 was 4.8 million, with approximately half this number being active members, that is, persons making periodic contributions to the funds. This membership size is a major achievement for the system of individual capitalization, representing as it does 46% of all people covered by Colombia's general pension system. The other 54% come under the Social Security system, characterized by average contributions and defined benefits.

Figure 1
Pension Funds Managers' Membership And Value
December 1994 – March 2003



Source: Banking Superintendency.

Moreover, the pension funds have also become increasingly important as a proportion of private savings in the economy. Thus, savings channeled through the PFM represented 5% of private savings in 1996, rising to 20% six years later.

* The authors are on the staff of the Banco de la República's Financial Stability Department. They are solely accountable for the opinions contained here, which do not necessarily reflect those of the Banco de la República or its Board of Directors.

II. Pension Fund Managers' Portfolio Composition

a. Classification by type of asset and counterpart

The composition of the fund managers' portfolio may be analyzed using various classifications employed by the Banking Superintendency that are relevant to this part of the Report. Assets are first decomposed into fixed- income (89%) and variable-income (10%) investments (Figure 2).

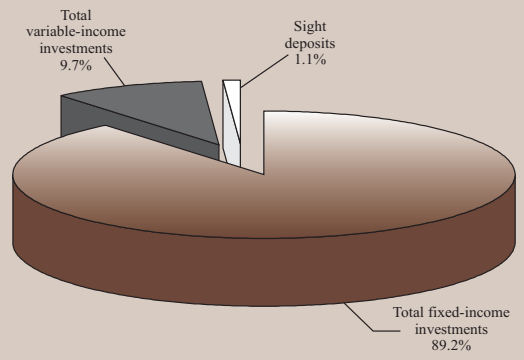
Public-debt paper makes up the biggest share of fixed-income investments (57%), followed by investments in the financial system (18%) and investments in institutions not regulated by the Banking Superintendency (17%) (Figure 3).

Figure 4 details the composition of public-debt investments in the Pension Fund Managers' portfolio. In March 2003 such investments amounted to 11.8 bn pesos, representing 9.06% of nonfinancial public-sector debt.

As shown by Figure 4, Treasury securities (TES) accounted for the biggest share (48%) of the portfolio's public-debt investments, followed by external-debt securities issued by the Nation (40%). The 5.71 bn pesos of TES held by the pension funds in March represented 11.4% of the total in the market and 29.5% of those held by the nonfinancial private sector. The PFM's share of Colombian external-debt bonds was 14.4%.

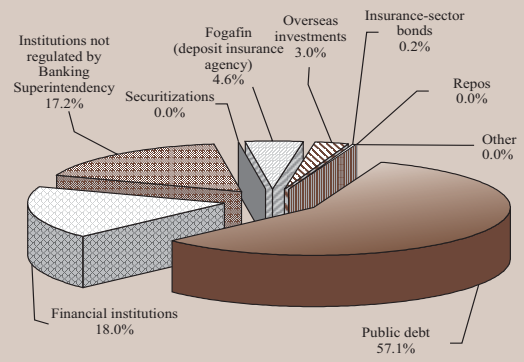
Table 1 shows the composition of the Pension Fund Managers' fixed-income investments with the

Figure 2
PFM's Portfolio Composition: Fixed- & Variable-Income Investments
(March 2003)



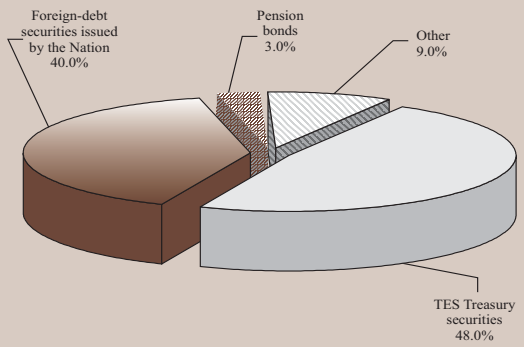
Source: Banking Superintendency.

Figure 3
PFM's Fixed-Income Investments
(% of Total Fixed-Income)



Source: Banking Superintendency.

Figure 4
PFM's Public Debt Investments, March 2003
(% of Fixed-Income Investments)



Source: Banking Superintendency.

Table 1
PFM's Investments With The Financial System, March 2003
(Amount, And As % Of Total Fixed-Income)

	Millions of pesos	Percentage
Certificates of deposit	2,125,954	10.31
Bonds	1,017,312	4.93
Credit securities from mortgage-loan securitizations	213,208	1.03
Investment certificates	134,446	0.65
FEN savings securities	79,384	0.39
Credit securities from securitizations of other-than-mortgage assets constituting ineligible investments	60,963	0.30
Credit securities from securitizations of other-than-mortgage assets constituting eligible investments	38,439	0.19
Mortgage bonds	25,423	0.12
Securities backed or guaranteed by Fogafin	11,193	0.05

Source: Banking Superintendency

Table 2
PFM's Fixed-Income Investments Other Than Public Debt And Financial Sector, March 2003
(Amount And As % Of Total Fixed-Income)

	Millions de pesos	Percentage
Institutions not regulated by Banking Superintendency	3.546.349	17,20
Bonds	3.282.620	15,92
Credit securities from mortgage-loan securitizations	251.724	1,22
Bonds backed, accepted or guaranteed by financial institutions	8.965	0,04
Commercial paper	3.039	0,01
Fogafin bonds	941.939	4,57
Investments in securities issued by overseas entities	591.735	2,87
Bonds issued by multilateral credit organizations	286.672	1,39
Fixed-income securities issued by overseas banks	179.528	0,87
Fixed-income securities issued by foreign governments	75.902	0,37
Fixed-income securities backed, guaranteed or accepted by overseas banks	14.791	0,07
Fixed-income securities issued by overseas central banks	34.842	0,17
Insurance-sector bonds	45.936	0,22
Total investments other than public debt and financial system	5.125.959	24,87

Source: Banking Superintendency

financial system. CDs stand out with 10.3% of the PFM's overall fixed-income investments, while mortgage securities made up a surprisingly low percentage.

As detailed in Table 2, some 25% of the PFM's total fixed-income investments were with other domestic agents and overseas entities.

Bonds issued by such agents or entities represented 16% of total fixed-income holdings, while the share of mortgages securities was once again surprisingly low.

As regards variable-income holdings, they were concentrated in overseas investments (48%), followed by investments with the financial system (27%) and institutions not regulated by the Banking Superintendency (25%) (Figure 5).

B. Classification by financial conditions

The composition of the pension fund managers' portfolio may be analyzed by the currency and/or unit of account of assets. Assets denominated in pesos made up the biggest portion of the portfolio(56%), followed by assets denominated in dollars (24%) and investments denominated in Real Value Units (20%).

Further analysis of the portfolio's composition shows that instruments indexed to inflation account for a very moderate share of it, despite the fact the Pension Fund Managers' liabilities are tied to movements in inflation. In effect, the sum of the instruments denominated in Real Value Units and CPI comes to 39.8% of the portfolio. Hence there is an enormous growth potential for financial instruments indexed to the Real Value Unit, considering the indexation nature of the PFM's liabilities.

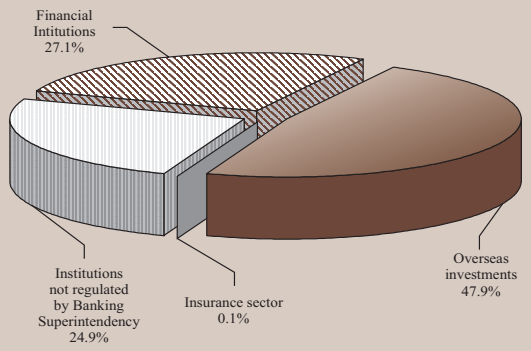
Breakdown of the PFM's portfolio into fixed- and variable-rate instruments shows fixed-rate investments accounting for 50.3% of the portfolio and variable-rate investments for 44%.

C. Breakdown by maturity

Lastly, decomposing the Pension Fund Managers' portfolio by maturity reveals that 90.27% of their assets mature in less than 10 years, while the remaining 9.73% have maturities of over 10 years.

In this connection, attention is drawn to the contrast between the age composition of fund members and the maturity composition indicated above. In effect, while assets are concentrated in relatively short maturities, 43% of fund members are between 25 and 34 years old, indicating a misalignment between the maturities and durations of assets and expirations of liabilities.

Figure 5
PFM's Variable-Income Investments



Source: Banking Superintendency.

Although the above-described maturity composition of the PFM's assets is characteristic of less developed capital markets, it has been improving in line with the development of longer-term (mainly public-debt) financial instruments. Moreover, it is important to point out the growth potential of longer-term financial instruments issued by the private sector as well as the and public sector, which should produce a better alignment between the Pension Fund Managers' liabilities and assets.

This Report has been prepared by
the Banco de la República's
Monetary and Reserves Division.
Editing and diagramming by
the Economic Publications Section,
Institutional Communications Department.