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Implications of Law 462 for Employers

On March 18, 2025, Law 462 entered into force, introducing significant amendments to Law 51 of 2005, the Organic Law of the Social Security Institution (CSS).

A. GENERAL OVERVIEW

These amendments revolve around two structural pillars, to wit:

- Improving the quality level of the health service system provided by the institution to insured individuals.
- Ensuring the sustainability of the Disability, Retirement, and Death (DRD) Pension Program, guaranteeing the payment of these pensions to current retirees and contributing employees.

The amendments create a Single System for the DRD regime, called the Single Capitalization System with Solidarity Guarantee, which a Solidarity Single Fund will support. All income intended to finance economic benefits granted for Disability, Retirement, and Death risks will be deposited into this fund through three subsystems:

- The Exclusively Defined Benefit Subsystem is currently in place.
- The Mixed Subsystem is currently in place.
- A new subsystem called the Single Capitalization Subsystem with Solidarity Guarantee.

The primary sources of income for the Solidarity Single Fund, intended to cover the benefits for Disability, Retirement, and Death risks, will come from:

a. A portion of the contributions paid by employers: 5.25% starting April 2025, 6.25% beginning April 2026, 7.25% beginning April 2027

b. 9.25% of the contributions paid by workers

c. The current reserves of the two original subsystems

d. A mandatory annual contribution from the State to cover the actuarial deficit of the Disability, Retirement, and Death program, with an initial amount of nine hundred sixty-six million balboas (B/.966.00 million) per year, which must be included in the General State Budget and will be adjusted annually

A significant benefit is the indexation of retirement pensions under the Contributory Component of the Solidarity Capitalization of the Single Capitalization System with a Solidarity Guarantee. These pensions will be adjusted every calendar year on June 1, based on the annual variation of the Consumer Price Index (CPI) from the previous year. However, the increase may not exceed 3%.

The retirement age to obtain a retirement pension under the Exclusively Defined Benefit Subsystem and the Mixed Subsystem remains 62 for men and 57 for women. Likewise, the age to access the retirement pension under the Contributory Component of the Solidarity Capitalization System will also be 62 for men and 57 for women.

B. MAIN MEASURES AFFECTING EMPLOYERS

The entry into force of the reforms means that employers will face:

1. Immediate progressive increase in the employer contribution.

The employer contribution rate will increase by three percentage points (3%) as follows:

- From 12.25% to 13.25% of salary from April 1, 2025, until February 28, 2027
- From 13.25% to 14.25% from March 2027 until February 28, 2029
- From 14.25% to 15.25%, starting March 1, 2029

It is important to note that the first 1% increase applies to the contribution for April 2025, which is paid in May 2025.

The employee's contribution remains unchanged at 9.75% of salary.

2. Increase in penalties

The amount of the fines for employers arising from infringements of social security regulations is substantially increased as follows:

- The maximum fine for failure to register, affiliate, and notify remains at B/.5,000.00
- The maximum fine for false statements, underreporting, and omissions increases from B/.20,000.00 to B/.30,000.00
- The maximum fine for refusal to provide information increases from B/.25,000.00 to B/.50,000.00
- The maximum fine for simulated legal acts increases from B/.25,000.00 to B/.50,000.00
- The maximum fine for other infringements at B/.25,000.00

We shall be pleased to advise you regarding the new Social Security Fund regime.