

Market and Benchmark Insight Report for Colombia – 2020

Competitive employee benefit norms for mid-market employers in Colombia

Introduction

For the last 15 years, Correcol has been the largest independent insurance broker in the Colombian insurance market with over 230 employees, 5,000 clients, and operations in eight cities across the country.

Correcol offers the Asinta Partnership, and their clients, dedicated, seasoned professionals who are highly experienced with the Colombian market. Multinational employers who work with Correcol can know their employee benefits will be well managed by a team with a long history and deep insight into the local market. Following Asinta's brand promise, employers can also expect a high level of responsiveness and for all aspects of Colombian benefits to be explained in a contextually relevant way.

This document considers:

- The Colombian Benefits Landscape – Colombian Benefits Menu, Mandatory Requirements, and Employment Law
- Typical Benefit Design and Cost
- Adviser Remuneration

We are proud to be an Asinta Partner, and hope this document is of use to you.

Enrique Acevedo Schwabe

General Manager
Correcol

Calle 93 A #11-36 Floor 4
Bogotá, Cundinamarca, Colombia
(571) 5300053 ext. 1002
eacevedo@correcol.com



Inside

Colombia's Benefits Landscape	2
Colombian Benefits Menu	2
Insured Benefits – Design & Typical Costs	6
Benefit Taxation	7
Setting Up Policies	7
Onboarding and Policy Administration	8
Adviser Remuneration	8
The Correcol Team	8



1. Colombia's Benefits Landscape

Employee benefits are important in Colombia as they help recruit and retain employees and reflect the employer's brand. They vary substantially based on four key dynamics:

- Sector – Private or Public
- Industry Type (business activity)
- Salary Levels
- Location (helps establish type of risk)



1.1 Public Sector Employees

Workers in the public sector are often members of trade unions and have a very generous range of employee benefits that typically include:

- Defined benefit pension plans
- Life assurance (through the pension plan)
- Income protection (long term disability) provided as early retirement due to poor health (typically inside the pension scheme)
- Sick pay (possibly six months full salary and six months half pay)

Benefits in the public sector can be higher, but there are no specific regulations for them.

1.2 Industry Type

Benefits vary widely according to industry type. For example, we see generous benefits in the financial services, high-tech and professional services sector. However, in the retail and hospitality sectors, benefits are far lower. We can provide sector specific benchmarking and advise on appropriate benefit design.

1.3 Salary Levels

Salary levels will impact benefit provisions. The Executive and Management salaries in Colombia range between \$COL14,000,000 per year (\$US 4,480.72) to \$COL 354,000,000 per year (\$US 113,298.13). The median executive salary is \$COL 96,000,000 (\$US 30,724.92).

In lower paid industries, you may find only senior managers provided with supplemental employee benefits. It is also common that directors or managers have benefits with higher limits. For example, life insurance policies may have higher insured limits.

1.4 Location

The location of employees can influence benefit provision and salaries. For example, departments or areas associated with high risk, employees can have higher benefits to encourage them to work there.

2. Colombia's Benefits Menu

LEGISLATIVE OVERVIEW

Law 100 of 1993 brought an end to the monopoly of the Social Security Institute (Instituto de Seguros Sociales - ISS) and thereby substantially altered the future prospects for private providers in the fields of pensions, general health and maternity, and workers' compensation. Between that date and final closure of the ISS in 2012 it continued to operate in parallel, and sometimes in competition, with private sector entities.

The current law mandates:

- **Pensions** – The state body is Colpensiones, and there are a number of private sector pension fund administrators (AFPs)
- **Healthcare** – The state body is Nueva EPS, and there are many private sector health promotion companies (entidades promotoras de salud - EPSs)
- **Workers' compensation** – This is handled by the state life insurance company Positiva, or duly authorized private sector life insurers, which usually form separate companies or units known as labor risk administrators (administradoras de riesgos laborales - ARLs).



2020 Market and Benchmark Insight

Article 87 of Law 1328 of 2009 provided for 'periodic economic benefits' (beneficios economicos periodicos or BEPs), a plan with an element of government subsidy for those who do not qualify for the minimum pension.

Employees may receive other benefits such as severance pay, holiday premiums, transportation subsidies, and family allowances. However, these are financed and regulated outside the social security system.

SCOPE OF COVERAGE

All employees are obliged to be affiliated to one of the state schemes or a private sector equivalent. The social security system aims to cover the whole population without any discrimination. The goal is that the beneficiaries now include not only those affiliated, but also all their economic dependents in the nuclear family. There are two forms of affiliation; contributory by all employees and the self-employed, and subsidized membership for those who are unemployed, or who are amongst the many poor in rural or urban areas.

The ranges of benefits that are typically available to employees in Colombia are shown in the table below.

2.1 Mandatory Benefits

Benefit	Comments
Pension	Employers pay 12% and employees 4% of their monthly wage. Contractors pay 16%. The maximum contribution per month is equal to 25 minimum monthly salaries (SMMLV). Employees who accumulate four+ minimum monthly salaries contribute 1% to 2% more of their base income to the solidarity fund. Switching between the public and private system every five years is an option for employees. However, they must choose one plan ten years prior to retirement.
Survivors benefits	Survivors receive 45% of the employee's monthly wage and the benefit increases 2% for every 50 additional weeks over the first 500 weeks. This is up to a maximum of 75% of the employee's basic monthly wage. For pensioners, the survivor receives 100% of what the pensioner was receiving.
Short term disability	Employees collect 66.67% (2/3) of their salary for 90 days plus 50% of salary for an additional 90 days. A 180-day extension is possible. A subsidy is provided equal to 66.67% of the insured's earnings in the month prior to the onset of the disability if the disability is caused by a disease. Employers are responsible for paying the sickness benefit for the first three days. Social security's subsidy begins on the fourth day, except in the cases of hospitalization, ambulatory surgery or postponement. This subsidy will be provided for a continuous 180 days. For maternity, the benefit is 100% of the insured's earnings for 14 weeks. Multiple births receive 16 weeks' pay.



<p>Long term disability</p>	<p>A disability pension depends on the insured's age at the time of the disability.</p> <p>For insured less than 20 years of age, they must have lost 50% of their labor capacity by a non-work-related cause and must have contributed 26 weeks of premium payments the year before the disability occurred.</p> <p>If the insured is more than 20 years of age, they must have made 50 weeks of contributions in the last three years and at least 20% of them between age 20 and when disability occurred.</p> <p>Degree of Disability: 50%–65%</p> <p>45% of the basic monthly wage, plus 1.5% of the basic monthly wage for each 50 weeks of contributions beyond 500 weeks (75% of monthly wag maximum).</p> <p>Degree of Disability: Greater than 65%</p> <p>The benefit is 54% of the basic monthly wage, plus 2% of the basic monthly wage for each 50 weeks of contributions beyond 800 weeks (75% of monthly wag maximum).</p> <p>The average earnings of the individual in the ten years before receiving the benefit is how the basic monthly wage is calculated.</p>
<p>Healthcare</p>	<p>Healthcare insurance in Colombia is compulsory and provided by either the public sector or private medical plans. The public healthcare system consists of the Contributive System (CS), which is financed by taxes paid by both employers and employees, and the Subsidized System (SS) for those who are unable to pay for their healthcare.</p> <p>The insurance component of the healthcare system is provided by Empresa Promotora de Salud (EPS), which are health “promoting” organizations that offer a mandatory basic healthcare plan known as Plan Obligatorio de Salud (POS).</p> <p>The EPS administers the POS and must either establish its own network of medical providers and facilities or contract for these services with Intitucones Prestadoras de Salud (IPS), which are institutions that provide medical care directly to patients (e.g., hospitals, clinics, and laboratories).</p>
<p>Vacation Days</p>	<p>Employers must offer 15 paid working days of annual leave for each year of service.</p>
<p>Holiday Pay</p>	<p>There are 18 paid public holidays in Colombia.</p>
<p>Sick Pay</p>	<p>Employees are entitled to 2/3 of their salary for the first two days they miss due to illness. From the third day and up to 180 days they get the same amount but from the social security system.</p> <p>If an employee is injured on the job, they are eligible for 100% of salary for the duration of the absence.</p>
<p>Maternity Leave</p>	<p>Maternity leave: The Substantive Labor Code in its article 236 indicates that every worker, in a pregnant state, is entitled to 14 weeks of maternity leave. The weeks will be divided into, 2 prenatal and 12 postnatal. During this time the employer is obliged to pay the full salary and continue with social security contributions.</p> <p>Paternity leave – The law gives eight working days for men to accompany the birth of their child.</p>
<p>License for serious domestic calamity</p>	<p>When the worker crosses a family or personal event that affects the proper performance of his duties, the employer is obliged to allow him to be absent for up to 5 paid working days when his emotional stability is affected. If the employer considers it, he may agree to the compensation of the time not worked; It will not count as overtime.</p>
<p>Mourning leave</p>	<p>In case of death of the spouse, permanent companion or any family member up to the second degree of consanguinity, the employer will grant leave up to five working days.</p>
<p>License for companion burial</p>	<p>The worker who wishes to attend the funeral of one of his work colleagues, may request permission, which must be granted as long as the operation of the company is not affected.</p>



2020 Market and Benchmark Insight

License to perform official positions	When the worker is requested by the state to perform functions as a voting jury, the employer must allow him to attend and, within 45 days, grant him a day of paid rest.
Voting Day	The employer must allow the worker to attend the election days. As a reward for assistance, the worker will receive half a day of rest in the month following the voting day.
Trade union license	The State obliges the employer to allow unionized workers to attend union meetings or activities within the working day.

2.2 Wider Benefit Provisions

In addition to the mandatory benefits, employers will often provide a range of benefits to help recruit and retain employees.

The most common package of benefits that exist in the market are associated to life insurance, health programs (in Colombia coexist insurance and other modalities), transportation for those companies that have production operations or are located in remote places, also inside restaurants are common in these kinds of companies. Also, it is common to offer small amount bonuses given to the employees through debit cards which can be used for gas, food or groceries. There is not an average practice in terms of distribution per hierarchy or percentage of the salary.

The most common benefits are shown below:

Benefit	Comments
Supplemental Health Insurance	<p>These plans complement those of the POS, improving the service and the quality of the institutions. They are financed in full by the insured with resources different from those of the obligatory contributions.</p> <p>Within the modalities of supplemental plans are the following:</p> <ul style="list-style-type: none"> • Health insurance policies issued by insurance companies • Prepaid medical plans issued by prepaid medical entities • Complementary care plans issued by the health promoting entities <p>In order to acquire a supplemental health plan, it is mandatory to be affiliated with the compulsory health plan in the contributing regime.</p>
Life Insurance	Life insurance is an appreciated benefit because it protects the economic instability that families face in the case of sudden death, disability or serious illness of a member of the family, usually the head of home. Through this, the insurance company agrees to pay an agreed amount (called compensation) to the beneficiaries upon death, disability or serious illness of the insured.
Company Car	Companies that have production operations, are located in remote places, or are in the restaurant industry commonly offer cars or other modes of transportation for select employees.
Small Bonuses	Employers commonly offer employees small bonuses in the form of a debit card which employees can use for gas and groceries for example.

When designing your benefits, you need to consider your sector, employee census data, and objectives. As advisors, we will help you design your benefits that work for you and are within your budget.



3. INSURED BENEFITS – DESIGN & TYPICAL COSTS

Below we have shown the most popular insured employee benefits in Colombia and typical levels of cover.

Benefit	Comment/Cost	Lower Quartiles Approach	Medium Quartile Approach	Upper Quartile Approach
Health Insurance	Supplemental health insurance is the most common non-mandatory benefit in Colombia. Health insurance provides benefits not covered or restricted by the mandatory basic health plan or benefits that require complicated procedures. Also provides higher levels of service.	Voluntary benefit	Offered, shared costs vary	100% family
Life Insurance	Most companies provide group life insurance as part of their employees' compensation packages. If companies provide life insurance to more than 80% of their employees, the value of the paid insurance premiums is tax deductible. Group life policies are classified as contributory or non-contributory, depending on who pays the premium. The employer pays the entire premium for a non-contributory policy. With a voluntary policy, the employee pays part or the entire premium, which is based on a multiple of their salary.	Voluntary benefit	Offered, shared costs vary	100% between 12x and 24x monthly salary
Burial Insurance	Typically, the insured amount is equal to the last monthly wage. For pensioners, the benefit is the equivalent of one month's pension. The minimum burial subsidiary is five times the legal minimum wage, and the maximum amount paid is 10 times the legal monthly minimum wage.	Voluntary benefit	Offered, shared costs vary	100% family
Travel Insurance	Only offered for the upper quartile employees, and travel policies typically have the employer paying the premium for the employee when travelling abroad.	Not offered	Not offered	100%
Pension Gap Insurance	This is life insurance which covers the gap between the pension pay check and the current wage. The mandatory pension will not cover this difference, and it is especially difficult and expensive during the first years because the pensioner and his or her family must adjust to receiving less income.	Not offered	Not offered	Voluntary benefit
Company Car	Companies that have production operations, are located in remote places, or are in the restaurant industry commonly offer cars or other modes of transportation for select employees.	Small car	Medium sized car	SUV/Large armoured car with driver
Dental Insurance	Usually covers dental emergencies and prevention. There are different plans offered, the basic plan is for emergencies, medium plans cover general dentistry and conventional root canal treatment and higher plans cover specialized dentistry.	Voluntary benefit	Offered, shared costs vary	100% family



4. Benefit Taxation

Employer contributions to government plans and premiums paid by the employer for group life insurance are tax deductible. Employee contributions to social security are tax deductible. Benefits in excess of 25 times the legal minimum monthly salary are taxable. Severance benefits are not taxed.

Employees can receive a tax deduction of up to 25% (30% including the obligatory contributions to the pension funds) of yearly income for payments to either a compulsory or voluntary pension plan.

A few fringe benefits are also tax exempt, such as accident indemnities, maternity payments, pension payments, funeral expenses, and a portion of leaving indemnity (cesantía) payments. This is for employees whose average monthly salary in the last six months of service did not exceed a certain amount.

There are no taxes on life and personal accident insurance policies. There is a 5% VAT tax on health insurance policies. There are no taxes on claims payments for life or personal accident policies.



5. Setting Up Policies

Having a group benefits plan in Colombia is not legislated or mandatory, however, most employers offer them in order to stay competitive in the marketplace. The setup for all benefit lines is fairly simple – discuss your needs with a consultant, look at benchmarking data, decide on your philosophy as an employer, then go to market and choose your providers.

The lengthier tasks fall to the plan administrators once the plan is in place. The ongoing administration and maintenance can be outsourced to a third-party administrator (TPA). Correcol provides this service at an extra charge.

ELIGIBILITY AND RESTRICTIONS

In general, all people belonging to a corporation can be insured. Those associated with cooperatives or employee funds, bank customers, supermarkets or public services companies, as long as they are within the insurability standards of the insurance company can also be insured.

There are other conditions that must be taken into account to be able to be insured in a group life policy. For example, the minimum and maximum age for inclusion, which in the market is usually between 18 and 65 years. However, you can find companies that accept minors, from 12 or 14 years old or older people.

Insurance companies can decide not to insure people due to health status, their work or their non-work activities which expose them to a high risk of incurring an illness or death.

Employers can contract several health insurance policies issued by one or several insurers. However, this must be reported to each insurer with which the employer has a policy, including voluntary health plans such as prepaid medicine or supplemental plans.

The insured can access services from the plan or policy that they choose. If the coverage of a contract is exhausted, the employee should choose to complement it with another contract. In no case will a higher value be recognized than what the medical service actually costs.

Note that plans can be revised each year.



6. Onboarding and Policy Administration

Onboarding

In the US, great attention is given to the onboarding process and the choices employees have to make. In Colombia, there is far less emphasis on this process because for most benefits there is little choice, and employees are automatically enrolled into policies.

Employee communication

We can support the following approach to meet clients' benefit communication needs:

- Staff presentations
- Benefit communication packets including new employee packets
- Benefit videos
- Benefit portals allowing employees to have secure access to benefit data (need to have in excess of 100 employees)

Policy Administration

As advisers, we provide full policy administration support. This includes any queries raised, ensuring policies are up to date, and of course, answering claims questions.

We also provide access to a portal for online administration of life insurance and income protection policies. This platform gives employers access to member data and can be accessed through a secure login facility. The portal allows employers to simply add and delete members knowing cover is automatically processed.

7. Adviser Remuneration

If a prospective client would like Correcol to perform a specific market study for them, the fee is US\$1,500. All other commissions and fees are charged to the insurance carriers. We will provide a full-service specification along with Terms of Business, and our contracts are typically one year in length.

8. Correcol Team



Enrique Acevedo Schwabe

General Manager

Telephone No:
(571) 5300053 ext. 1002

eacevedo@correcol.com



Sandra Rojas

Benefits Director

Telephone No:
(571) 5300053 ext. 9001

srojas@correcol.com



Marcela Riveros

International Manager

Telephone No:
(571) 5300053 ext. 1301

mriveros@correcol.com



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