

Pension Reform Challenges and Recent Trends in Latin America

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Outline

- Background: The Social Insurance schemes in Latin America
- The situation until the 1990s
- The reforms
- The situation in the mid 2000s
- Recent reforms and debates
- VERY recent reforms and debates
- Pending challenges

Background

- Social Insurance schemes in Latin America until the 1980s was mostly PAYG
- High heterogeneity, on coverage, fiscal impact, institutional arrangements
- In the 1980s, structural reforms resulted in an important change in design

The reforms...

- Most countries
- Main components:
 1. Parametric reform (age, rates)
 2. Introduction of DC schemes
 3. Funding
 4. Private management

Several countries stopped at (1) or (2)

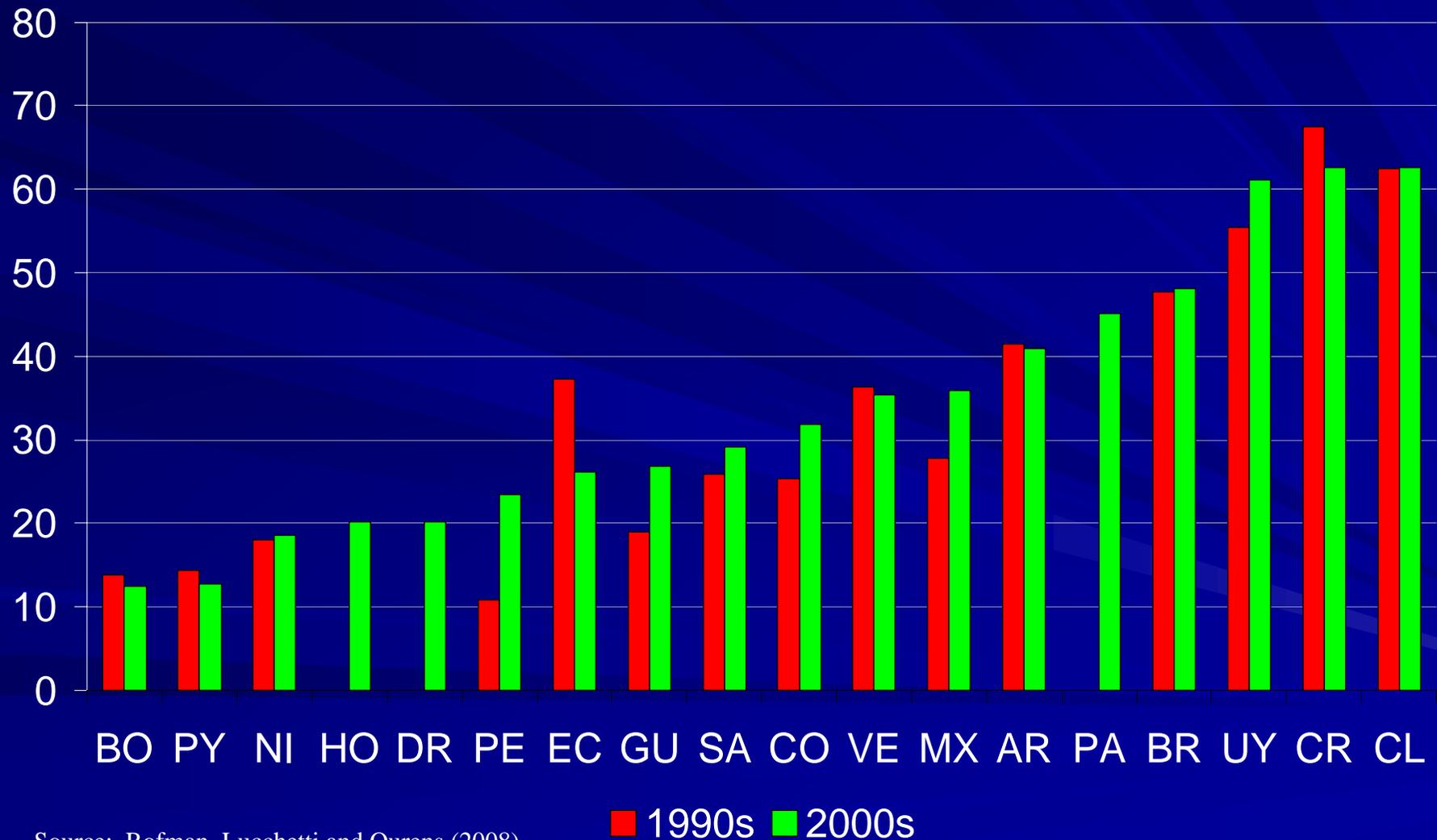
The politics behind the reforms

- Difficult processes. In some cases (Chile, Peru) were approved by non democratic governments, in others required long negotiations and years of debate
- Results not always as planned, due to pressures and conflicts of interests.

The situation in the mid 2000s

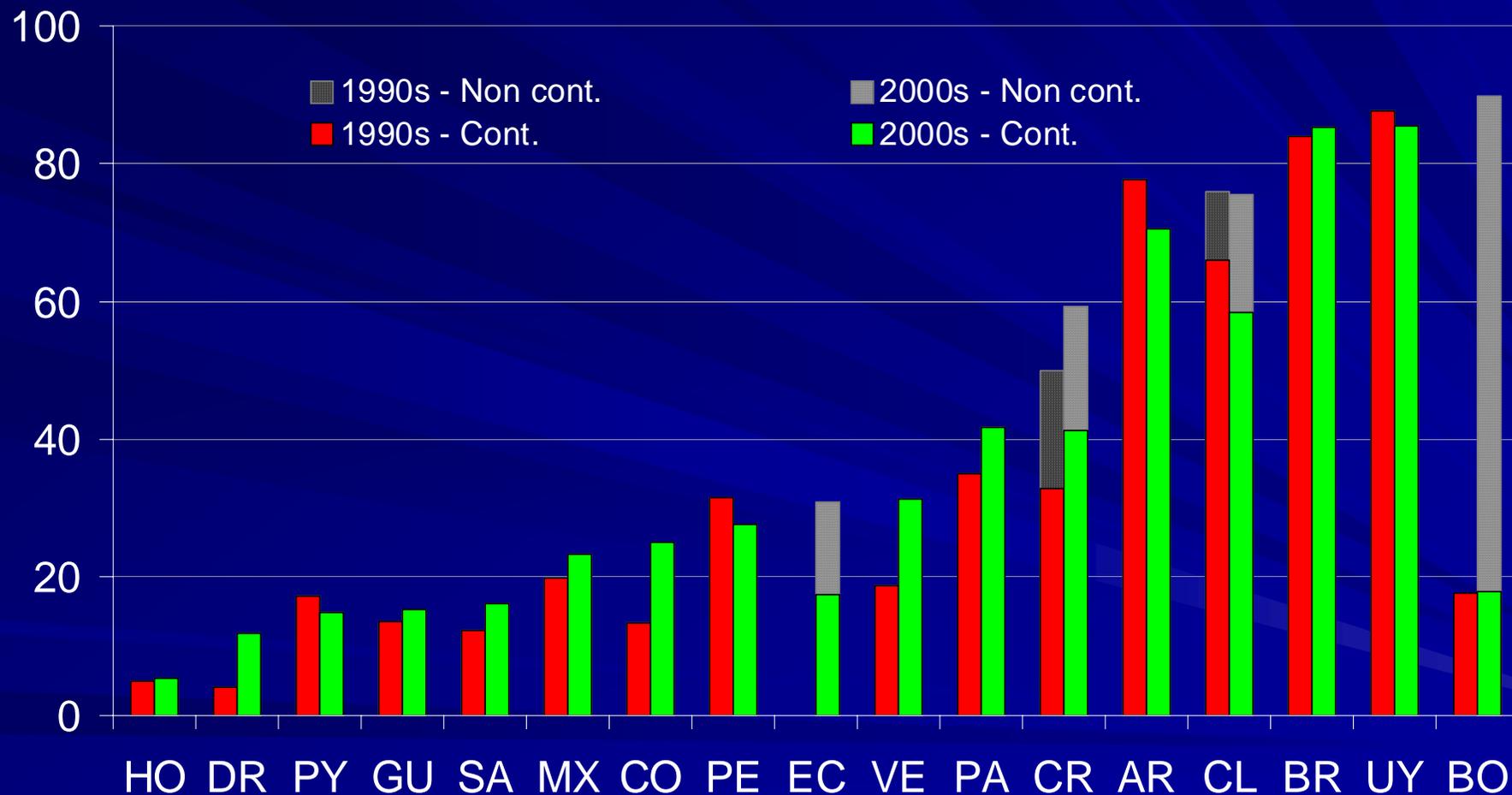
- Fiscally:
 - Medium and long term fiscal sustainability improved
 - Short term pressure important, may have contributed to fiscal crises in some cases
 - Overall outcome depends on institutions strength.

Coverage in the 2000s: % of labor force contributing to pensions



Source: Rofman, Lucchetti and Ourens (2008)

Coverage in the 2000s: % of elderly receiving pensions



Source: Rofman, Lucchetti and Ourens (2008)

Recent reforms: focusing on coverage

- Increase contributions
- Easier access to contributory benefits
- Non Contributory benefits
- Intermediate approaches (Argentina 2007)

More contributions

- Strategy depends on diagnostic:
 - If participation is low because of poor incentives
 - Matching contribution
 - Bundling with other programs
 - More transparency and efficiency
 - Reduced contribution rates
 - Paperwork simplification
- } Monotributo
- Colombia's case: limited success

More contributions

- If participation is low because of weak enforcement
 - Increase supervision
 - Crosscheck databases
 - Integrate information systems
- Difficult and costly to implement, particularly for small and medium size firms and independent workers
- Relevant on the positive part of the cycle

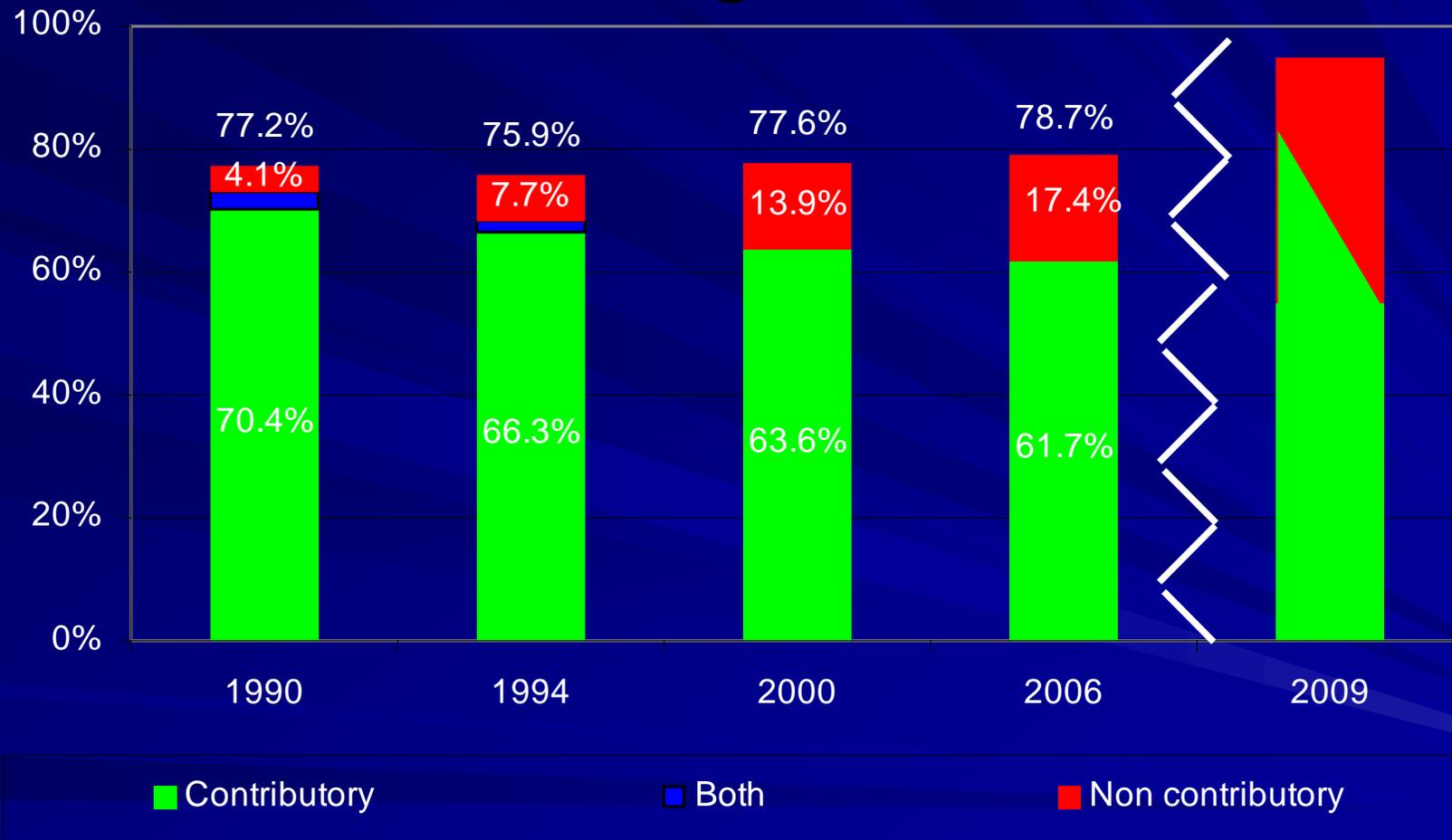
Easier access

- Reduce vesting period
 - Reasonable in some cases (UY, reduced from 35 to 30 yrs), better to offer proportional benefits
- Early retirement
 - No impact on final coverage, improves temporary problems

Non contributory benefits

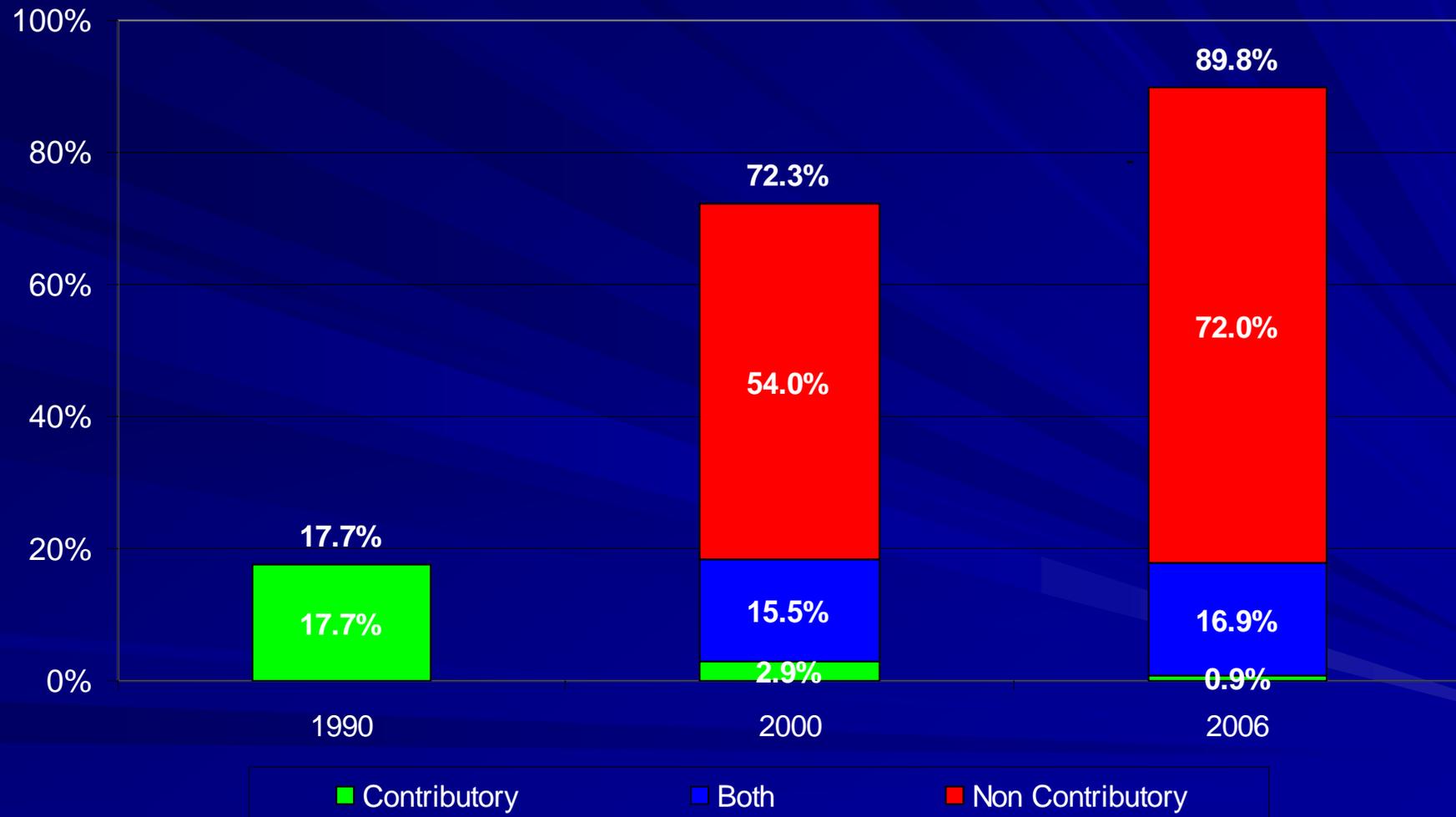
- If targeted and small
 - Small impact (4% of Chile's, 3% of Argentina's elderly in the early 1990s)
- If universal and large
 - Incentives problems
 - Fiscal restriction
- Challenge: Find a balanced option!
- RECENT EXPERIENCES

Chile: Complementing a high coverage level



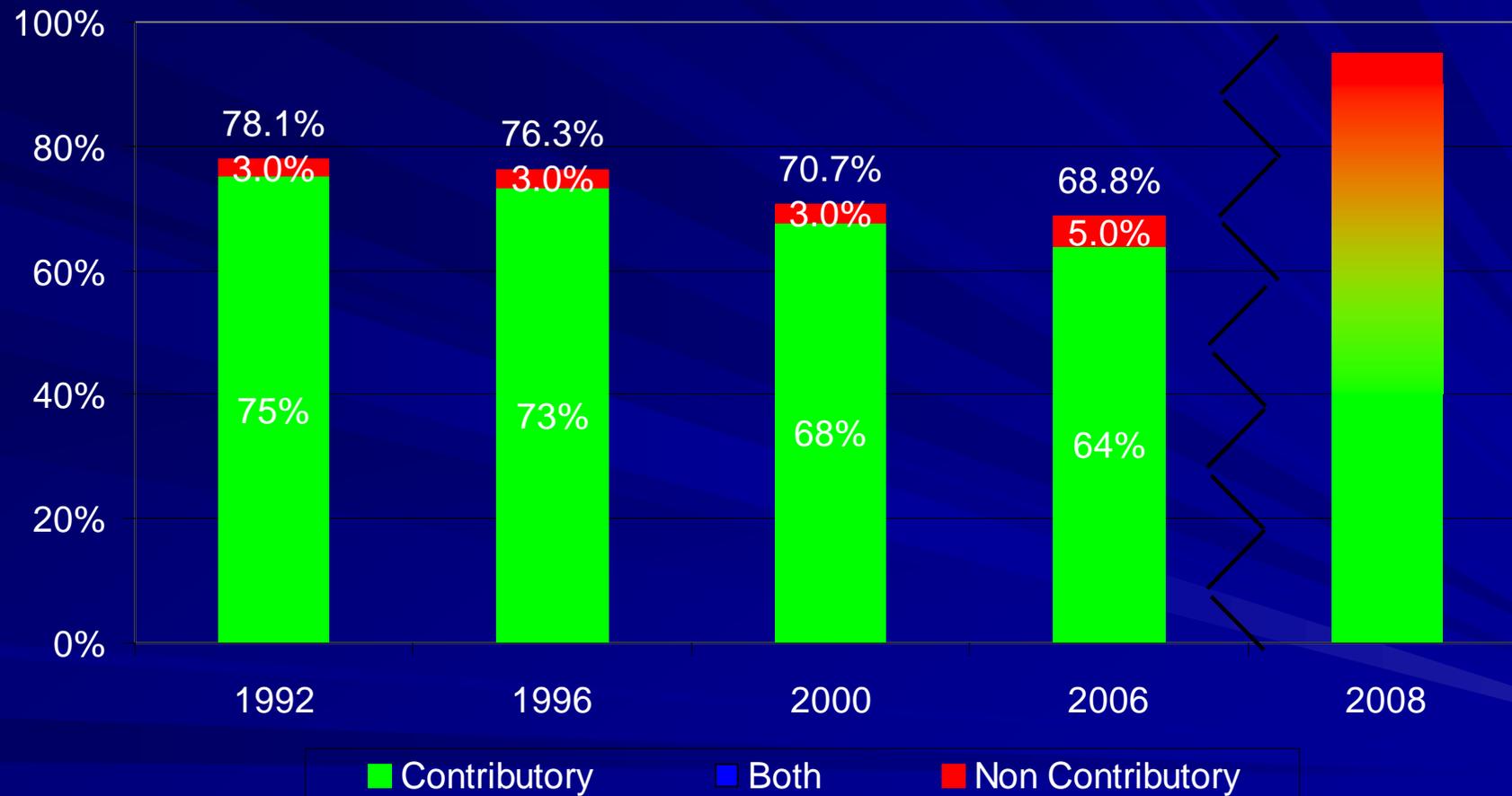
Source: Rofman, Lucchetti and Ourens (2008)

Bolivia: Universal Benefit



Source: Rofman, Lucchetti and Ourens (2008)

Argentina: Moratoria



Source: Rofman, Lucchetti and Ourens (2008)

Very recent reforms

- Financial crisis spurred concerns about funded/DC schemes
- Some governments reacted proposing switch back to PAYG
 - Argentina is about to pass a new law
 - Discussions in Peru, Uruguay

Very recent reforms

- Concerns seem to be ill-advised
 - Returns in 2008 are negative, but still large and positive over 5+ yr period
 - Multipillar schemes protect workers from hard hit
 - Only soon to retire workers really affected

Conclusion– Pending Challenges

- The core challenge in LAC continues to be coverage
- Fiscal sustainability a problem in a few countries
- Equity concerns, due to public financing of pensions
- Multipillar still a reasonable response, if well calibrated
- Bottom line: Barr's centrality of output

Some useful background

SP DISCUSSION PAPER NO.0831



Reforming the Pension Reforms: The Recent Initiatives and Actions on Pensions in Argentina and Chile

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German Herrera

May 2008



SP DISCUSSION PAPER NO.0616



Pension Systems in Latin America: Concepts and Measurements of Coverage

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