

# Saving for Development: Demography and Pensions

Solange Berstein

Mariano Bosch

María Laura Oliveri

Labor Markets and Social Security Division

\*Opinions expressed in this presentation do not represent the opinion of the IDB or its Board of Directors. Based on IDB publication.



# Main Message



Pension systems in Latin America have low **coverage** and have important design problems that impact their **sustainability**, **equity** and **efficiency**.



Population **aging** requires not only better **pension systems**, but also more **productivity**.

# Running out of time: The demographics of savings





**10 millions over  
80 today in  
LAC**



Source: Celade, Oct. 2015



**10 millions over  
80 today in  
LAC**

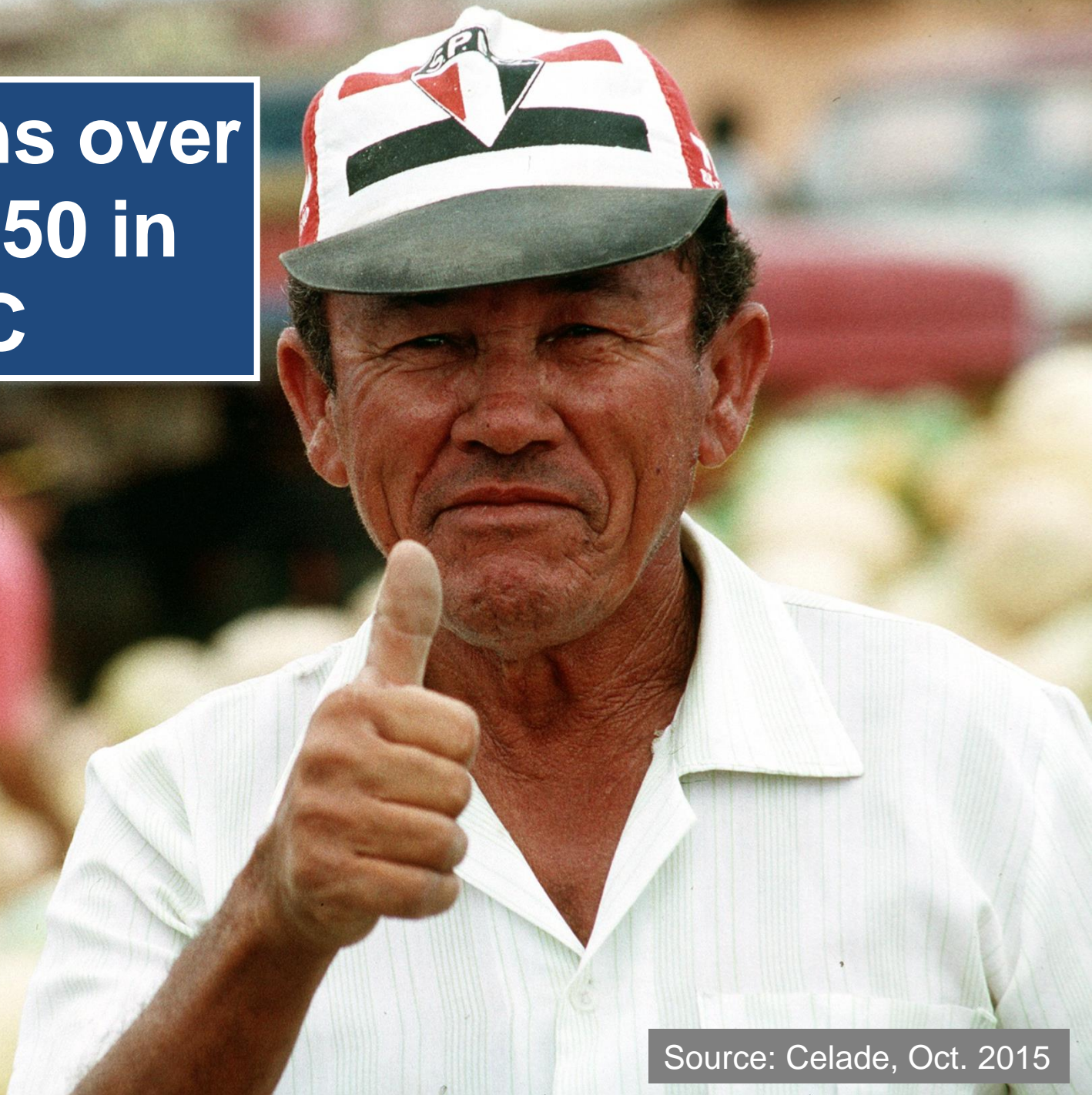
**3 millions in  
Brazil**



Source: Celade, Oct. 2015



**45 millions over  
80 in 2050 in  
LAC**

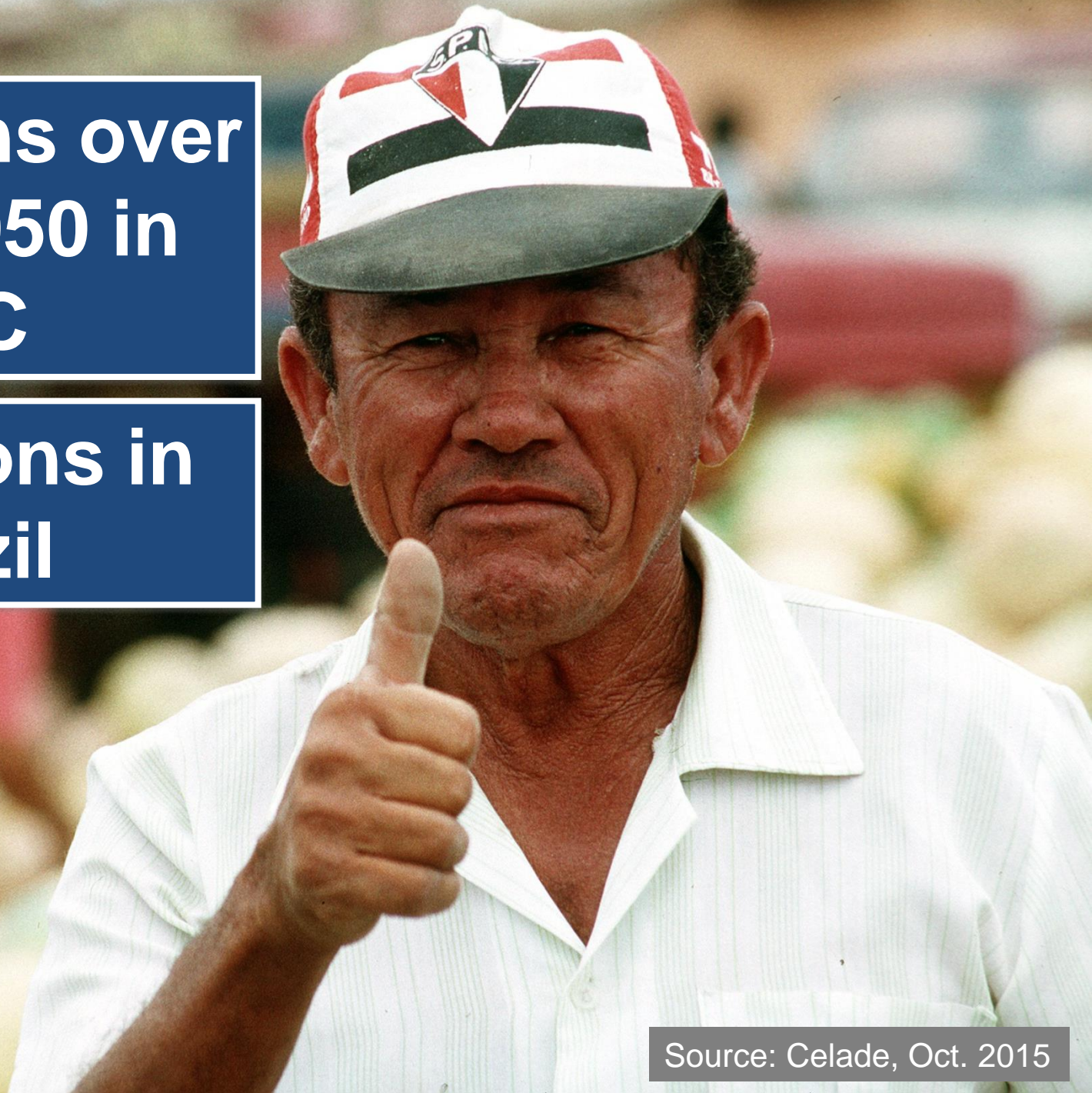


Source: Celade, Oct. 2015



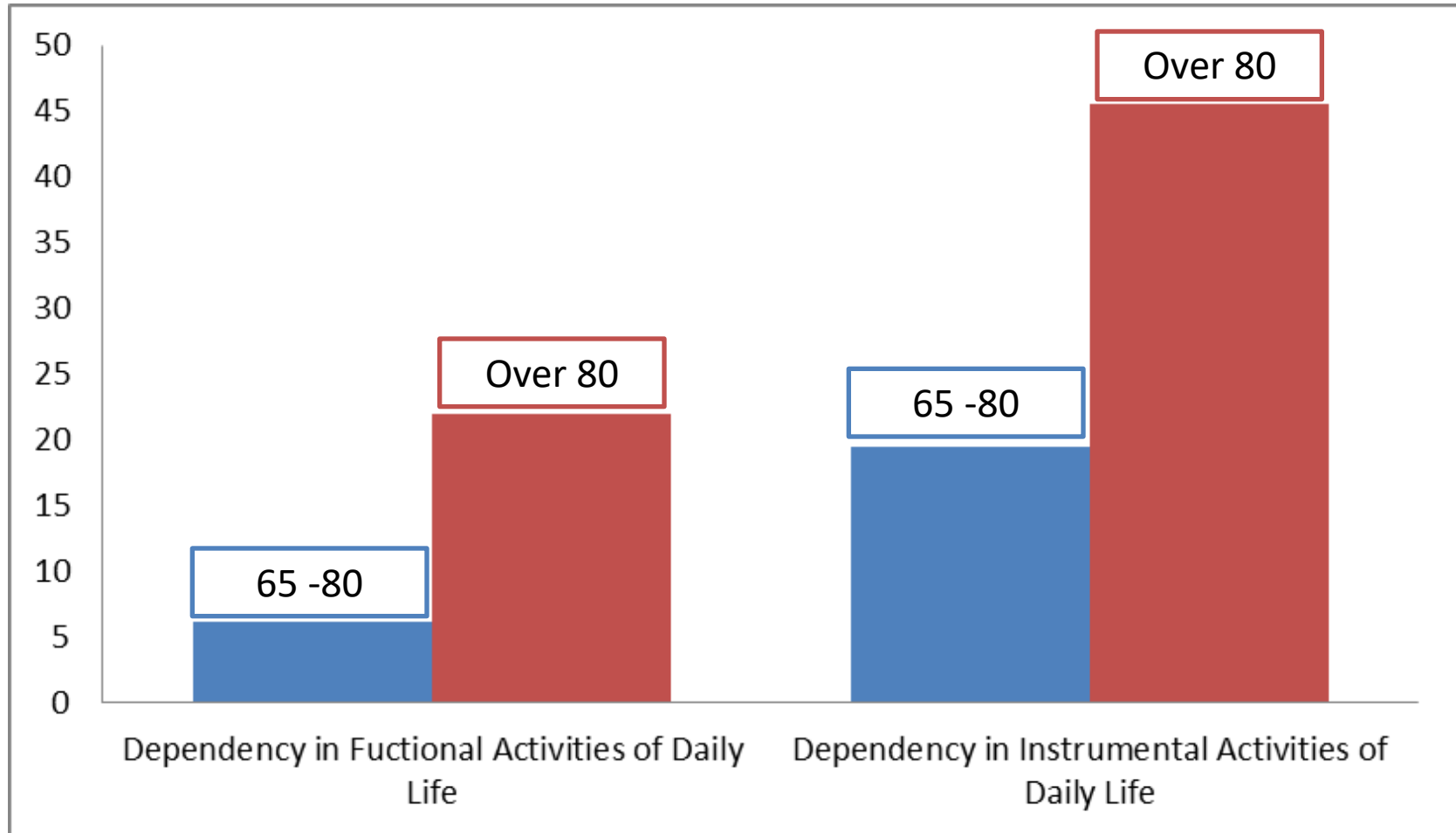
**45 millions over  
80 in 2050 in  
LAC**

**18 millions in  
Brazil**



Source: Celade, Oct. 2015

# More Elderly with More Needs





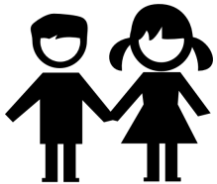
# More Elderly with More Needs



Health expenses of over 80 can reach more than double the average lifetime expenses



Over 90 health expenses can be more than 4 or 5 times the average lifetime expenses



Even health expenses of children under 2 years old is below average lifetime expenses

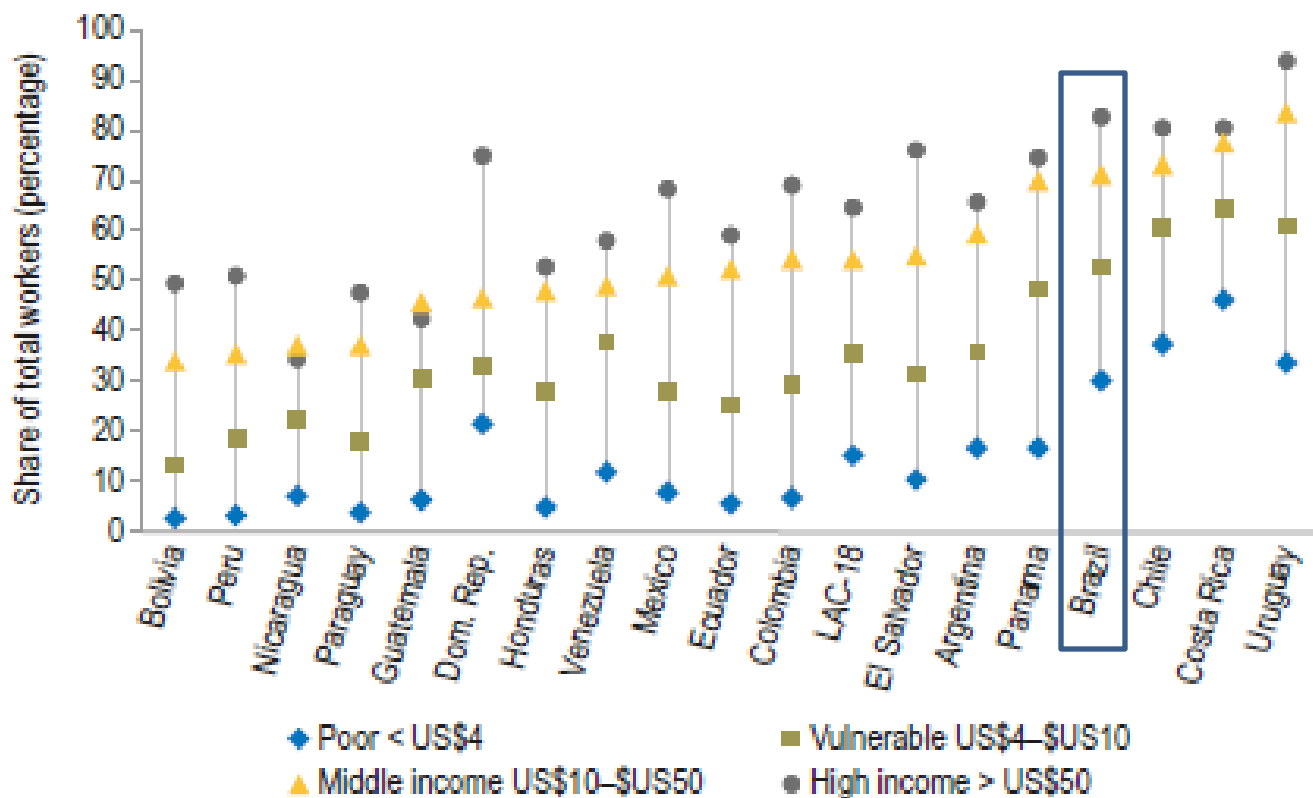
**Is the region  
prepared?**





# Low percentage of the population with pension contributions

## Share of Workers that Contribute for Pensions, by Income



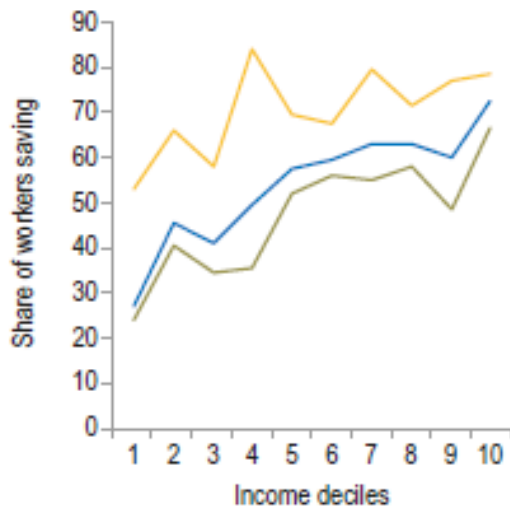
Source: Authors' calculations based on the IDB's Labor Markets and Social Security Indicators System database.

Note: Income classification as of 2005 in purchasing power parity (PPP) terms.

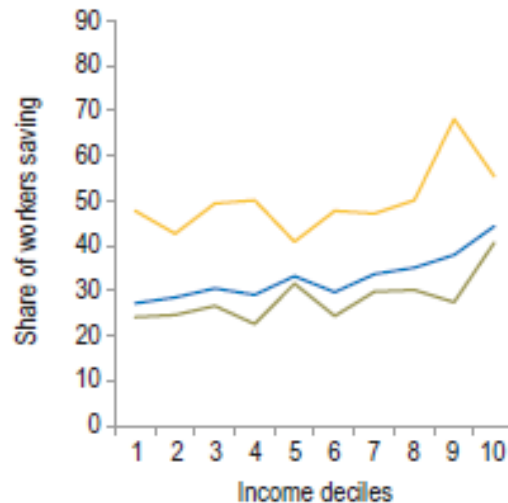


# The ones that do not have a pension... Save?

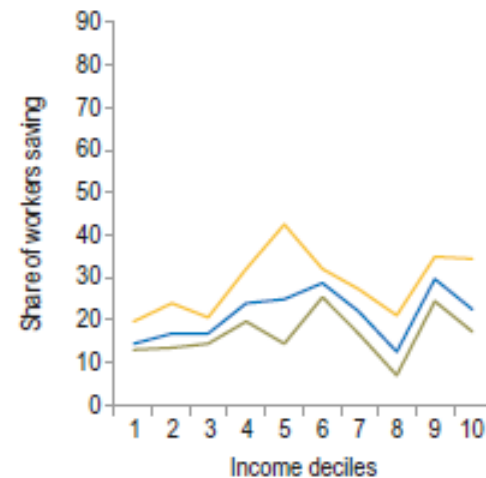
## Peru



## Mexico



## Brazil

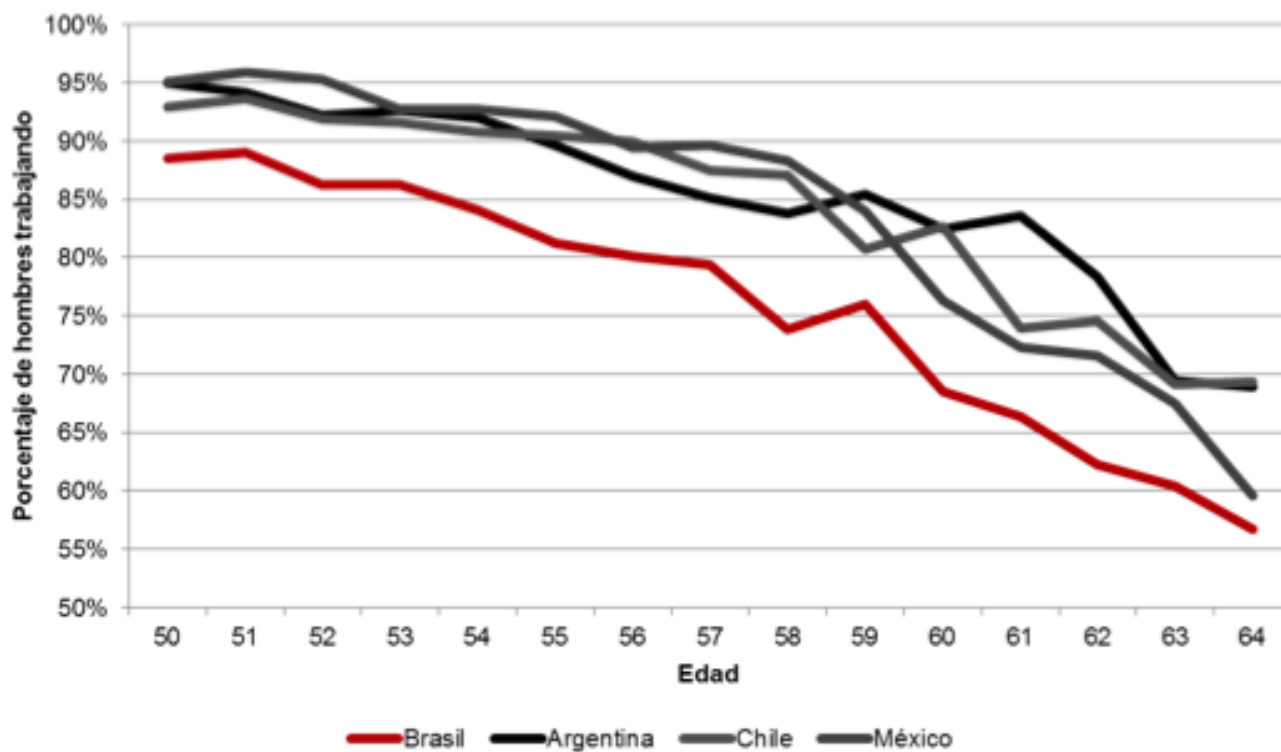


— Total — Contributing to pensions — Not contributing to pensions





## Participation in Labor Market by Age, 50-64: Argentina, Brazil, Chile and Mexico



Source: Bosch, Melguizo e Pagés (2013)

Labor participation decreases with age. Brazil is below other countries...

# Saving for the Future: Pension Systems





# The Design Matters!



## **Important Challenges:**

Regardless of being a pay as you go defined benefit system (PAYG/DB) or defined contribution fully funded system (FF/DC)

# Challenges for PAYG Defined Benefit Systems



Adequacy and equity

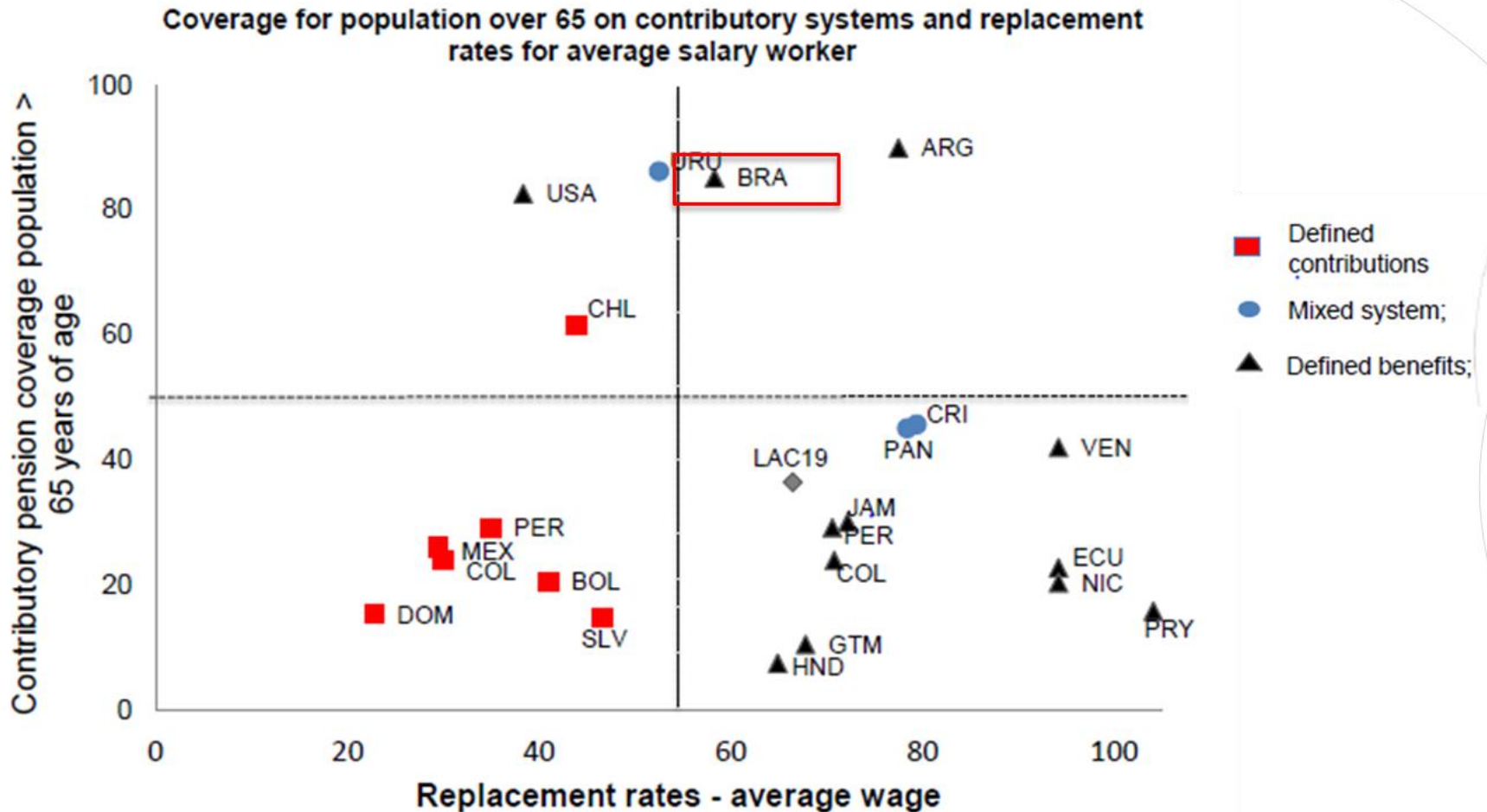


Financial sustainability



Institutions and governance

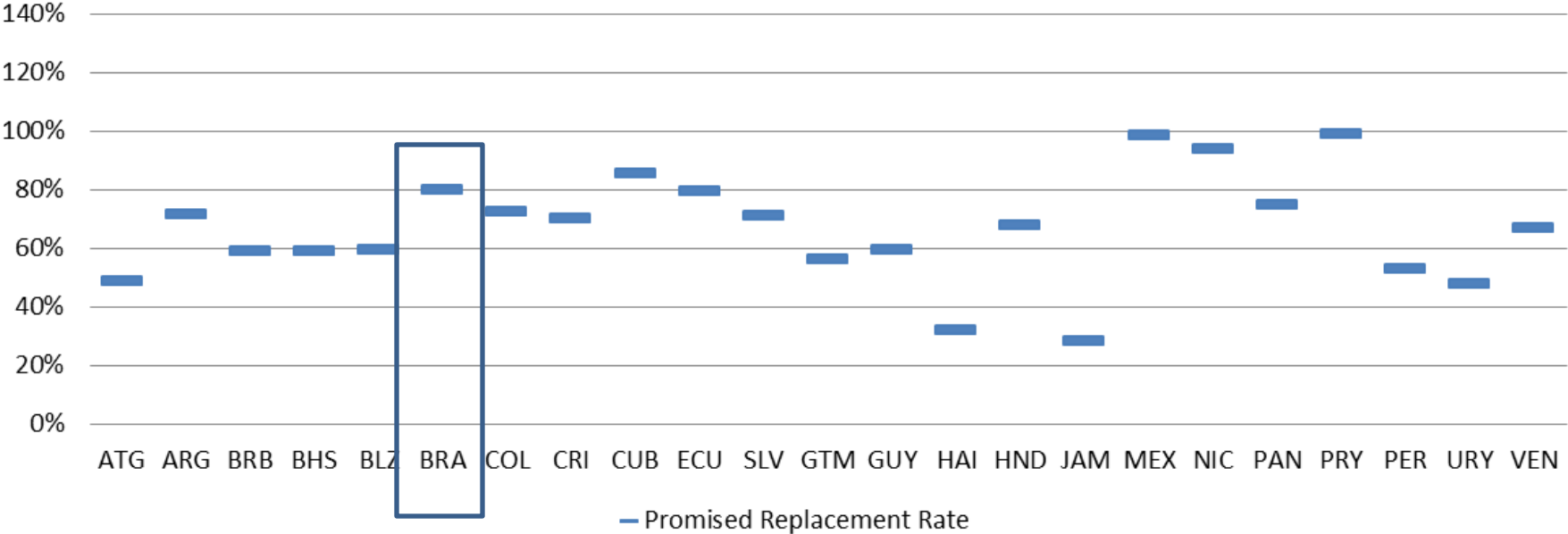
# Adequacy and Equity





# In general PAYG Defined Benefit Systems are Generous...

### Promised Replacement Rates Under PAYG (2010-2015 )

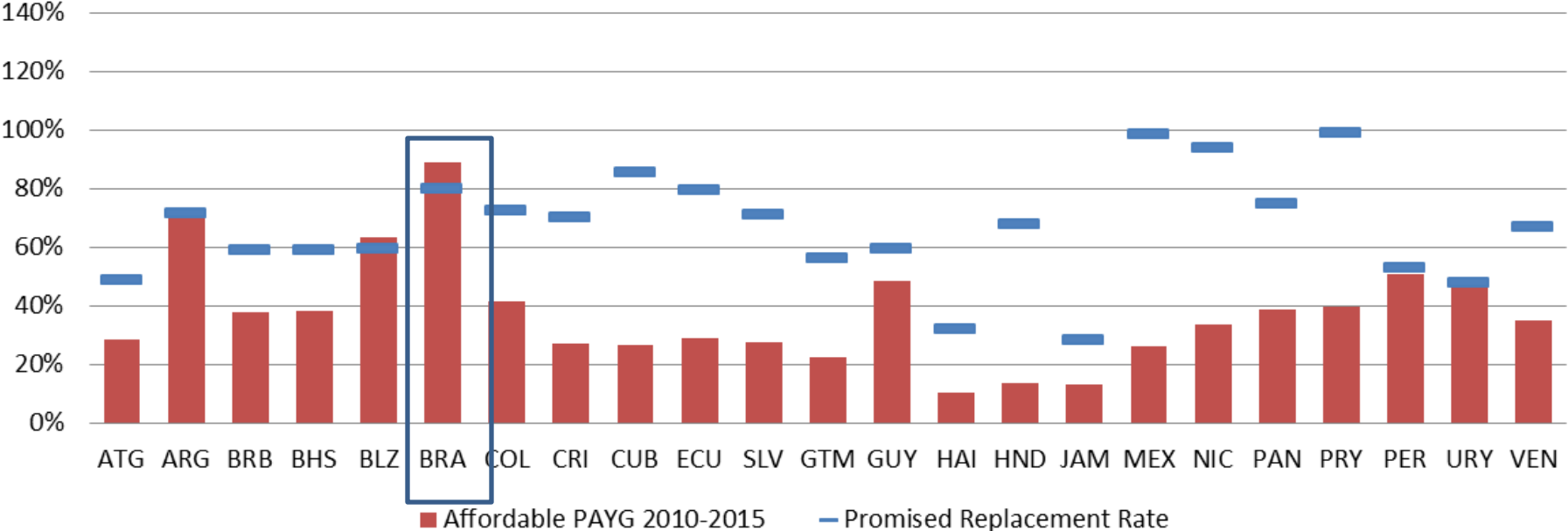


Source: Own calculations.



# In general PAYG Defined Benefit Systems are Generous...

Promised and Affordable Replacement Rates Under PAYG  
(2010-2015)

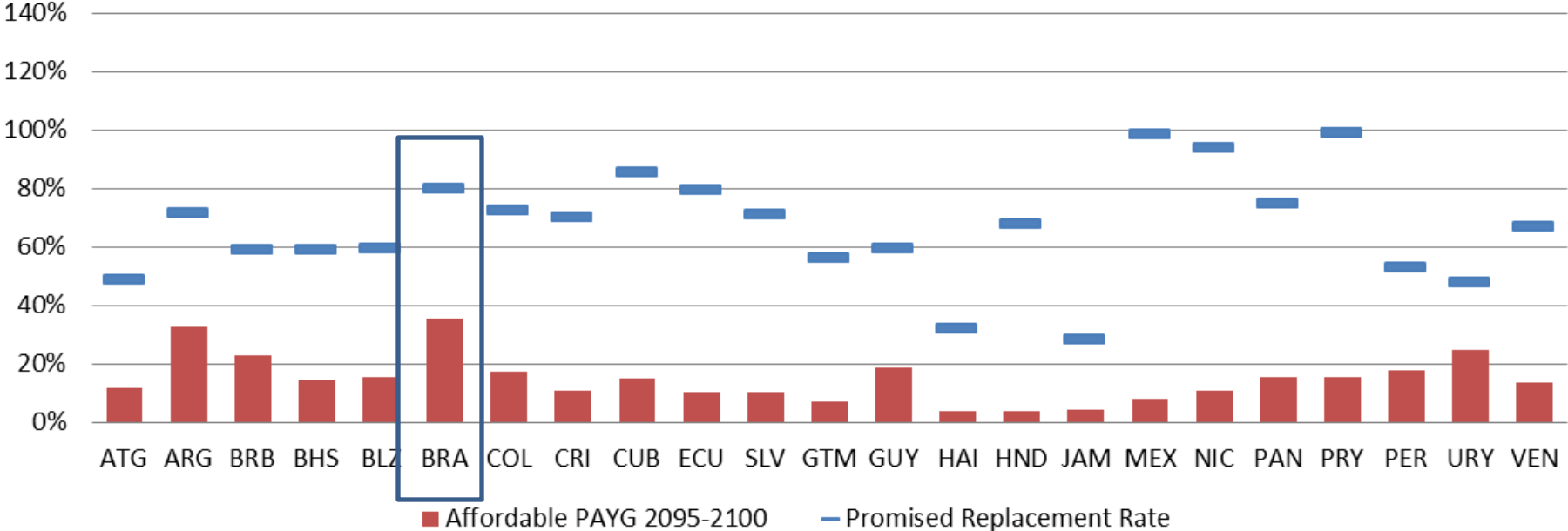


Source: Own calculations.



# In general PAYG Defined Benefit Systems are Generous...

**Promised and Affordable Replacement Rates Under PAYG  
(2095-2100)**

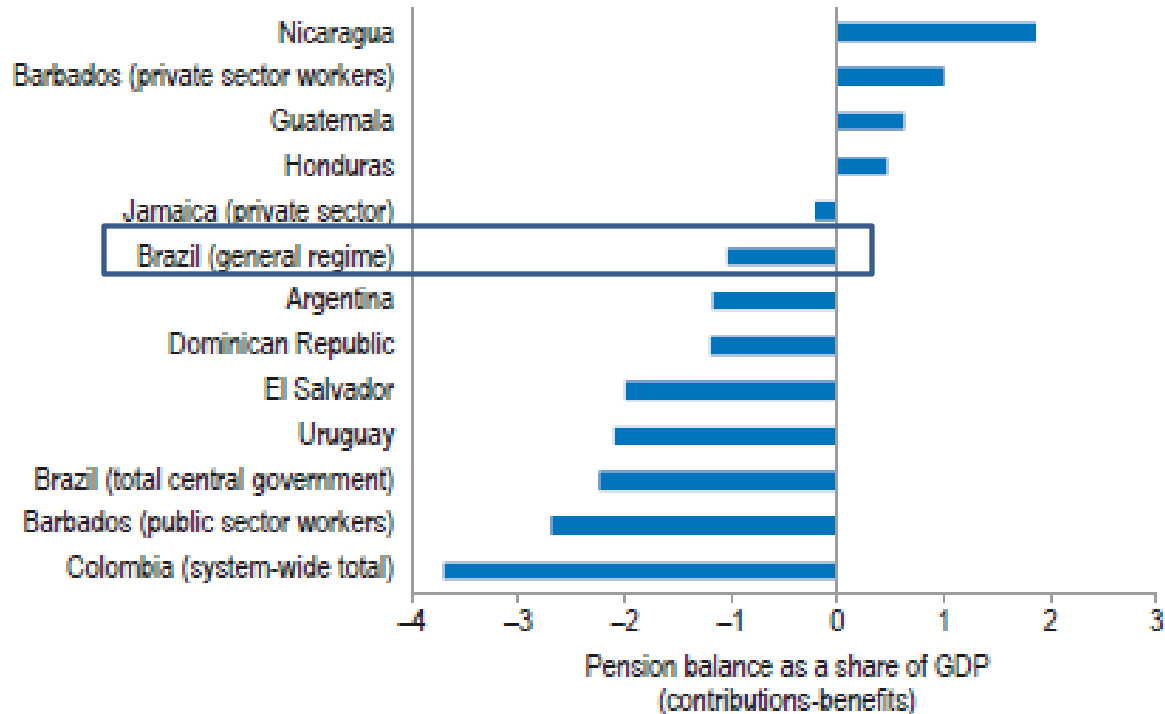


Source: Own calculations.





# Difference between contributions and payments: Difficulties for financial sustainability...



Source: Authors' calculations; Colombia (Bosch et al., 2015), Barbados public sector workers (Eckler, 2014), Brazil, Uruguay, Dominican Republic, Honduras, Guatemala (IDB's fiscal database), for Brazil general regime (Ministry of Social Security, Brazil), Jamaica private sector (Hall, 2014).

# Pay as you go Defined Benefit Systems: Promises, promises...

## Recommendations

- Evaluate the parameters of the system to adapt to demographic changes (automatic adjustments)
- Generate reserves as much as possible
- Improve information to pension plan members
- Rise awareness of the need to tackle pension systems' challenges with a long term view
- Strengthen institutions to support pension policy, regulation and supervision

# Aging has imposed an important sustainability challenge for a significant number of countries: Reforms....

Examples of Reforms to Improve Sustainability of Pension Systems OCDE (2009-2013)			
Increase Retirement Age	Increase of Time of Contribution	Adjustment of Benefits	Increase Incentives to Work more
Australia	Belgium	Austria	Australia
Belgium	Check Republic	Check Republic	Belgium
Check Republic	France	Finland	Canada
Denmark	Greece	Germany	Finland
Estonia	Luxemburgo	Greece	France
France	Spain	Hungry	Germany
Germany		Japan	Irland
Greece		Luxemburgo	Luxemburgo
Hungry		Norway	Norway
Irland		Portugal	Portugal
Italy		South Korea	Spain
Poland		Slovenia	Sweden
Slovenia		Spain	UK
Spain		US	
Turkey			
UK			



# In LAC there have been parametric and structural reforms

Structural Reforms			Parametric Reforms	No Reform
Replace the Old System	Parallel	Complementary		
Chile (1981)	Peru (1993)	Argentina (1994)	Brazil	Equador
Bolivia (1997)	Colombia (1994)	Uruguay (1996)	Cuba	Guatemala
Mexico (1997)		Costa Rica (2001)	Panama	Haiti
El Salvador (1998)		Chile (2008)	Venezuela	
Dominican Republic (2003)		Bolivia (2008)	Nicaragua	
Argentina (2008-Reverted)		Honduras (2015)	Barbados	
			Paraguay	

Sources: Carmelo Mesa Lago (2012), IADB (2005) and own update.

# Challenges for Funded Defined Contribution Systems



Transition costs



Investments, returns and costs



Retirement products and longevity insurance



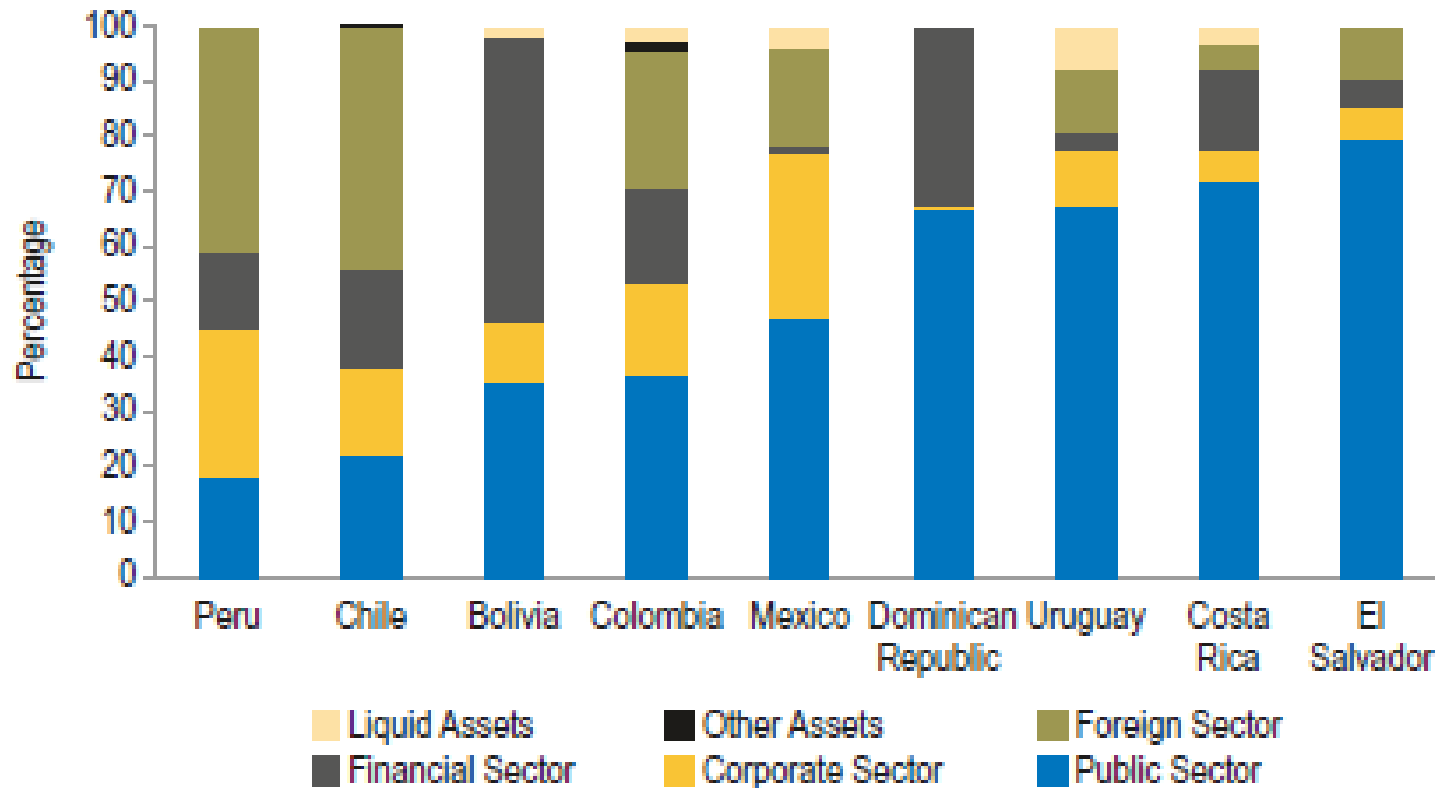
Financial literacy, legitimacy and confidence

# Defined Contribution Systems: Work in progress...

## Transition

- Transition costs of moving from a pay as you go system to a funded system are **high**.
- These costs have not always been properly **assessed** at the time of a reform.
- The financial capacity of a country **limits** the type of reforms that can be **implemented successfully**
- A **roadmap** with a **long term** view would allow a path for **sustainable** and **adequate pensions**

# Investment of Pension Funds...



Source: Authors' calculations based on Federación Internacional de Administradoras de Fondos de Pensiones (FIAP) statistics (FIAP, 2015).

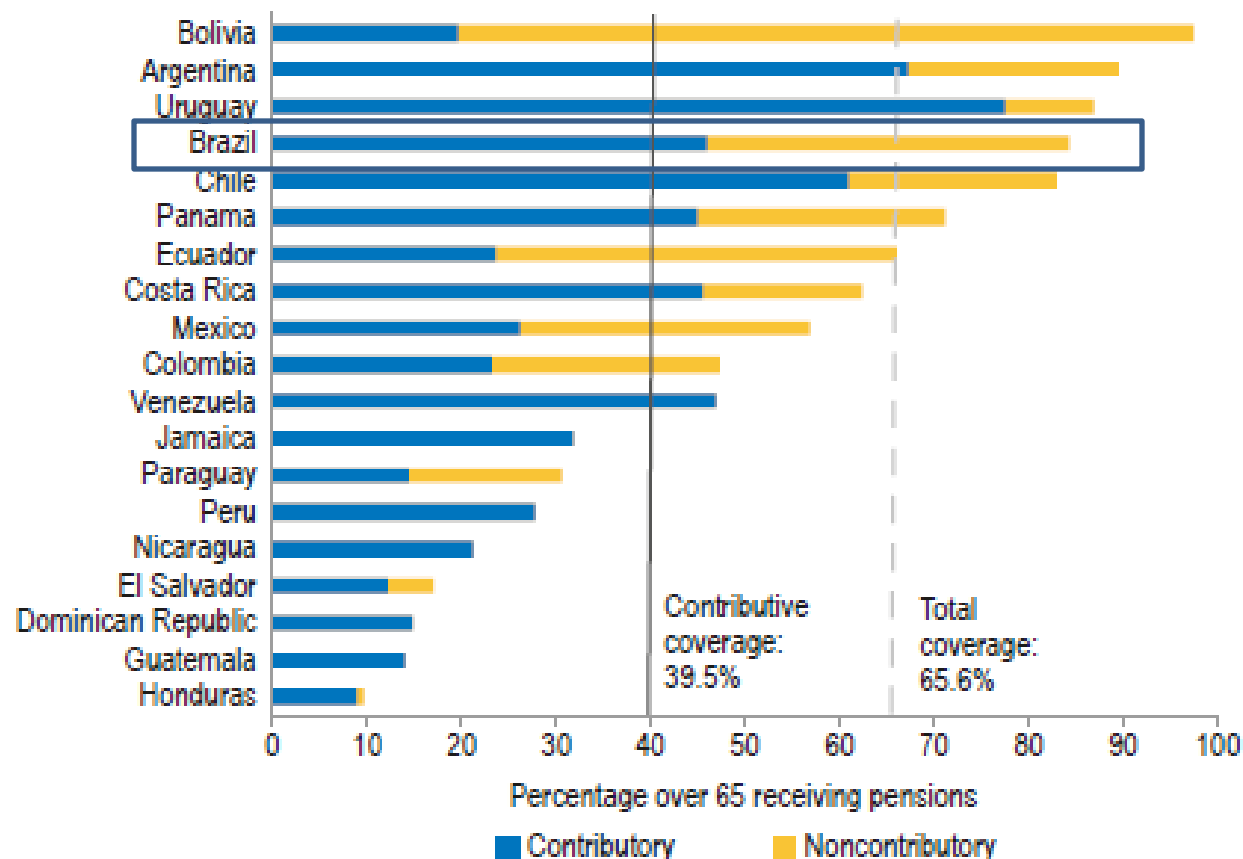


# Defined contribution systems: Work in progress

## Recommendations:

- Find ways to increase returns and reduce costs
- Evaluate system parameters and retirement products
- Provide solid information and education to participants
- Improve regulation and supervision to promote adequate pensions
- Promote voluntary savings

# When everything else fails: Non contributory pensions



Source: Authors' calculations based on the IDB's Labor Markets and Social Security Indicators database.

Note: The division between contributory and noncontributory pensions in Argentina, Brazil, and Uruguay was obtained by dividing the number of beneficiaries of these programs by the number of adults over 65. This could be an imperfect measure in countries where the beneficiary can begin drawing a pension at a younger age.

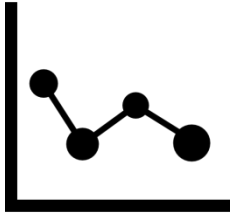


# When everything else fails: Non contributory pensions

## Recommendations:

- Strengthen institutions
- Careful design to preserve incentives to contribute
- Consider that financing of aging is key for economic development

# Pensions Matter!



Financial situation of **pensions** might impact national savings and economic development



A society that lives longer needs more **savings**



Channeling savings efficiently contributes to financing a better life for future elderly



# Red **PLAC**

RED DE PENSIONES EN AMÉRICA LATINA Y EL CARIBE

**[www.iadb.org/redplac](http://www.iadb.org/redplac)**



OBSERVATORIO DE SEGURIDAD SOCIAL  
DE AMERICA LATINA Y EL CARIBE

**[www.observatorioregional.net](http://www.observatorioregional.net)**



**THANKS!**

 @BID\_Trabajo

 [blogs.iadb.org/trabajo](https://blogs.iadb.org/trabajo)

