

A stylized map of Latin America and the Caribbean region, rendered in shades of green and teal. The map is centered on the continent, showing the outlines of Mexico, Central America, the Caribbean islands, and South America. The background is a gradient of teal and green.

Better Pensions, Better Jobs

Towards Universal Coverage in Latin America and the Caribbean

Ángel Melguizo
World Bank Core Course on Pensions
Washington DC – March 13, 2014





Better Pensions, Better Jobs. Towards Universal Coverage in Latin America and the Caribbean

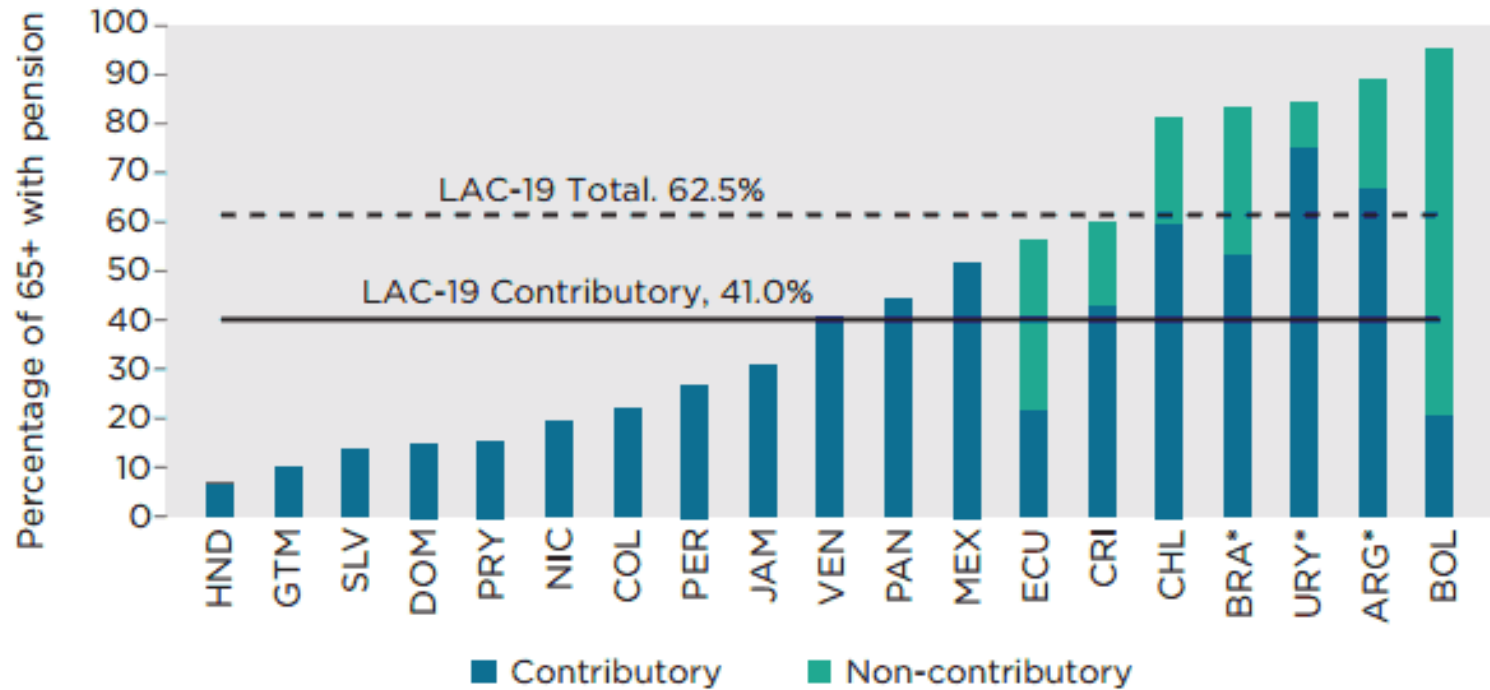
- Diagnostic of pension coverage in LAC**
 - A conceptual framework
 - Study recent policy innovations
 - Offer guidance for policy reform





Low pension coverage in LAC: 4 out of 10 among Pop 65+ do not get a pension

Pension Coverage in Latin America and the Caribbean, 2010



Source: Bosch, Melguizo, and Pagés (2013).

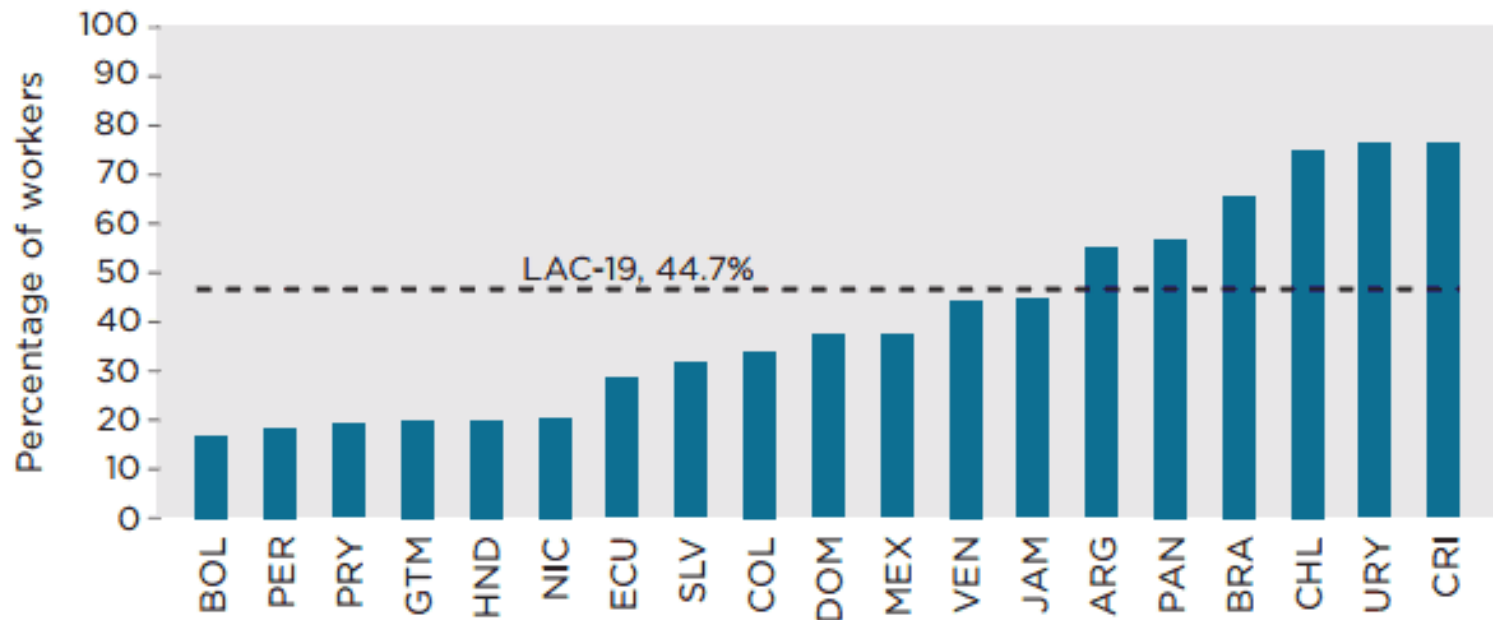
(National Household Surveys data)



The labor market at the epicenter of the challenge and the solution

Only 44,7 % of workers in LAC contribute to a pension system

Pension savings: Percentage of contributors over total employment in Latin America and the Caribbean, 2010



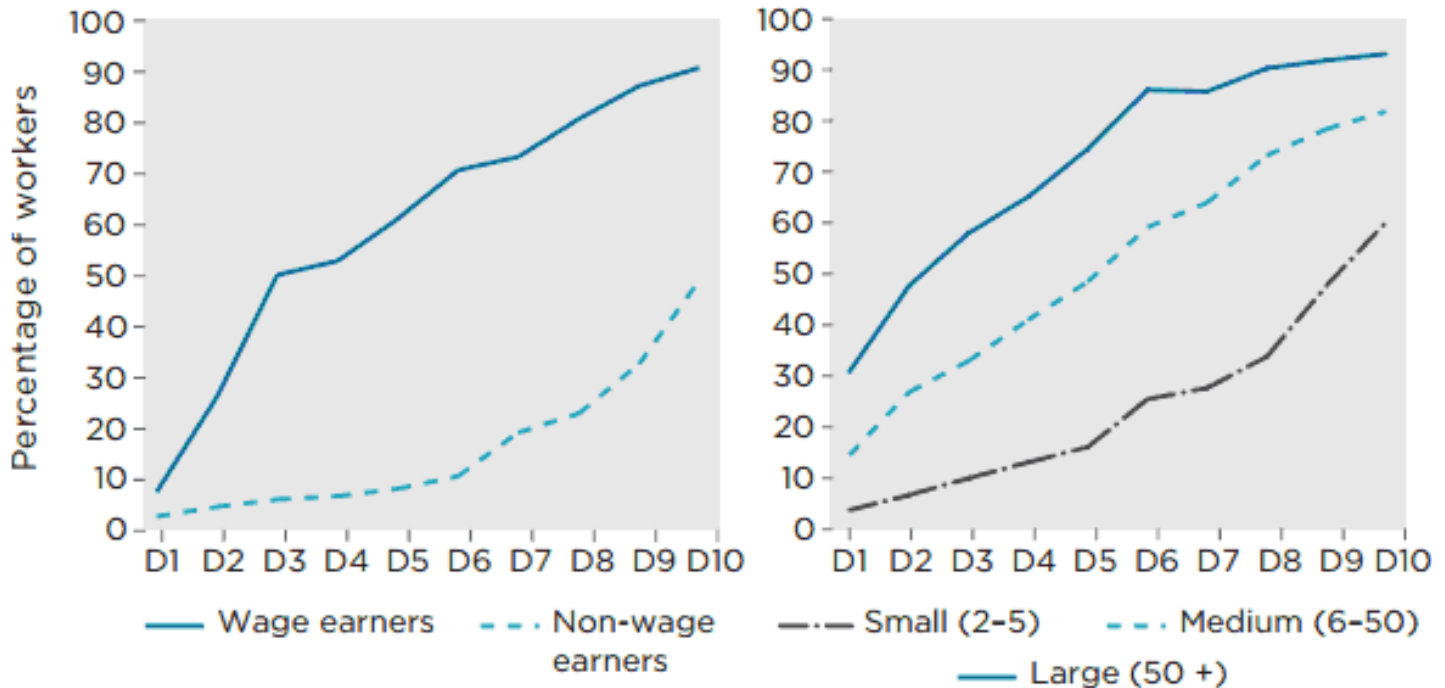
Source: Bosch, Melguizo, and Pagés (2013).

(National Household Surveys data)



Pension savings are low for non-wage earners, workers in small firms, or low-income workers ...

Pension savings: Contributors to the pension system in Latin America and the Caribbean by income decile, occupation and firm size, 2010

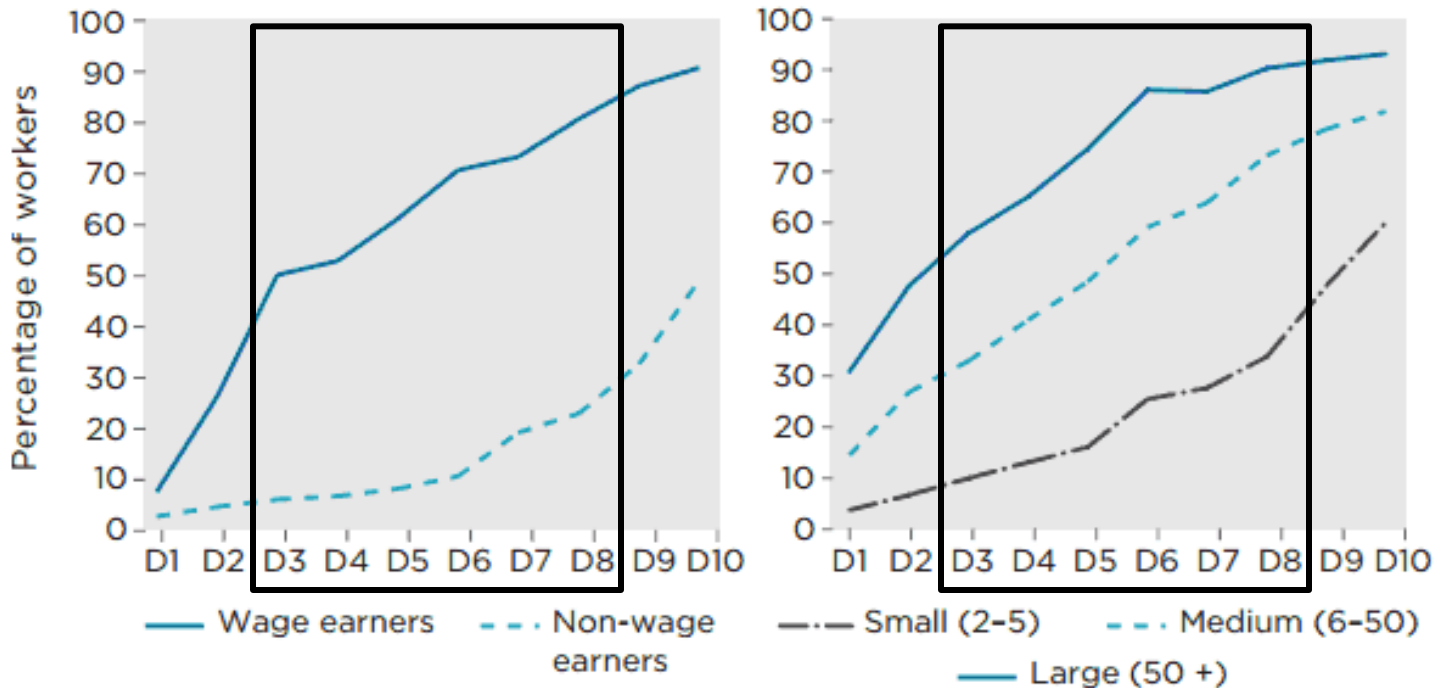


Source: Bosch, Melguizo, and Pagés (2013).



... but also for the emerging middle class

Pension savings: Contributors to the pension system in Latin America and the Caribbean by income decile, occupation and firm size, 2010

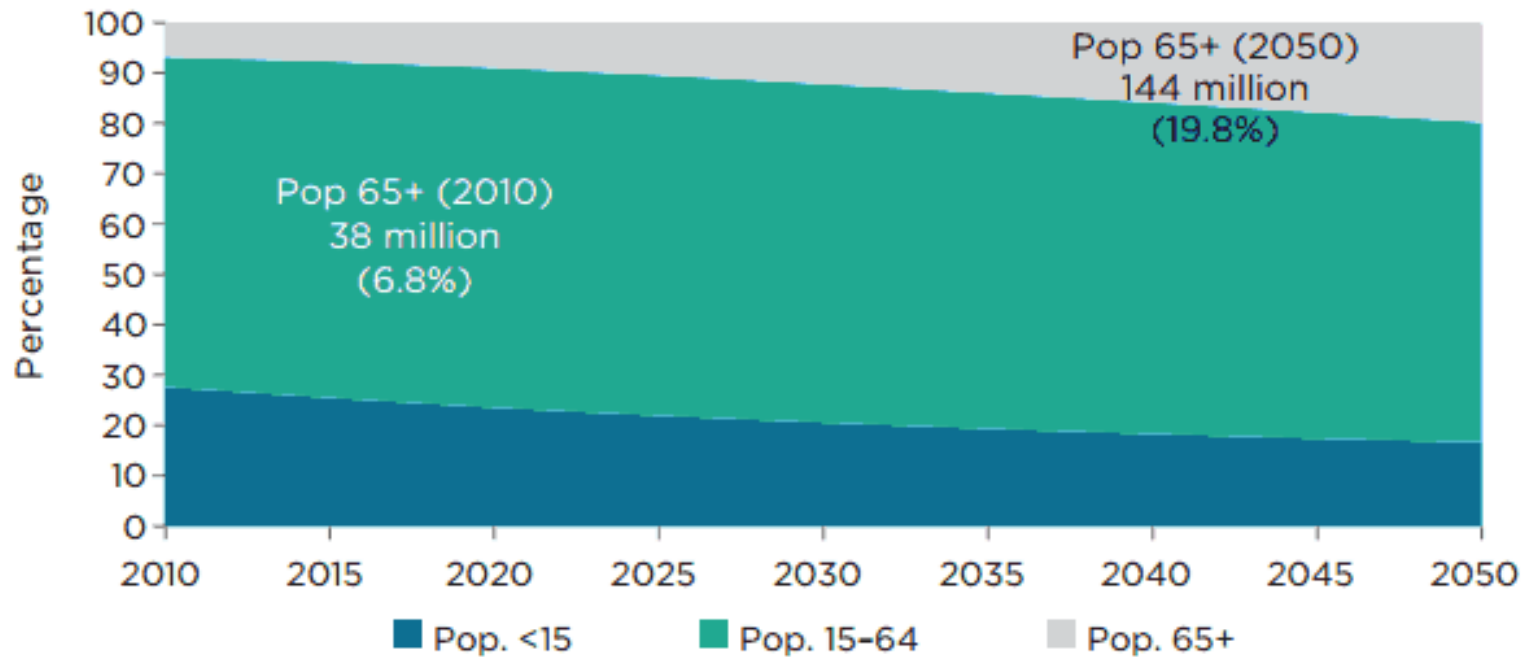


Source: Bosch, Melguizo, and Pagés (2013).



Pop 65+ will more than triple in four decades

Population projection for Latin America and the Caribbean, 2010-50



Source: Bosch, Melguizo, and Pagés (2013).

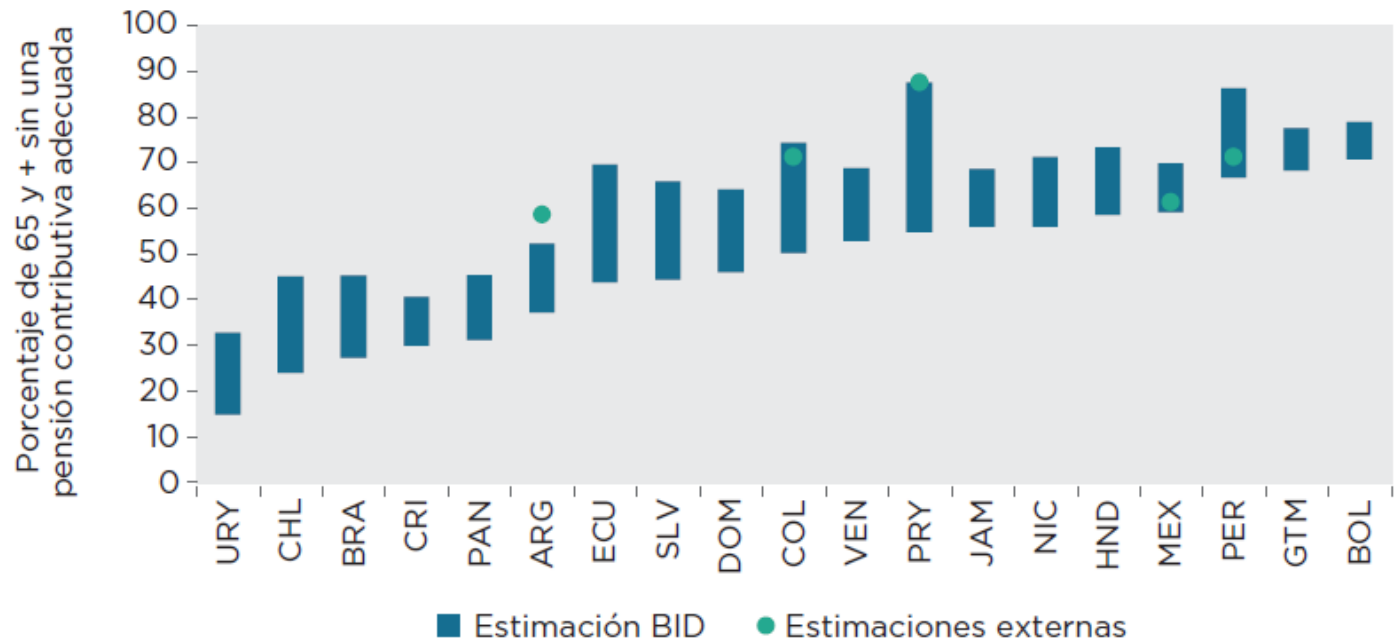
(United Nations and Celade projections)



Between 47% and 60% of adults 65⁺ (up to 83M) will not have an adequate pension

Pension coverage gap in 2050

(Percentage of adults over 65 without an adequate pension)



Source: Bosch, Melguizo and Pagés (2013)



This pension gap will have relevant consequences:

- ❑ **Social:** Families will need to devote greater effort to the care of the elderly.
- ❑ **Political:** Adults 65 + will make up between 20% and 30% of the potential voters.
- ❑ **Economic:** How coverage gaps are closed can have an impact on productivity growth.
- ❑ **Fiscal:** Lack of coverage represents (also) an implicit fiscal cost.



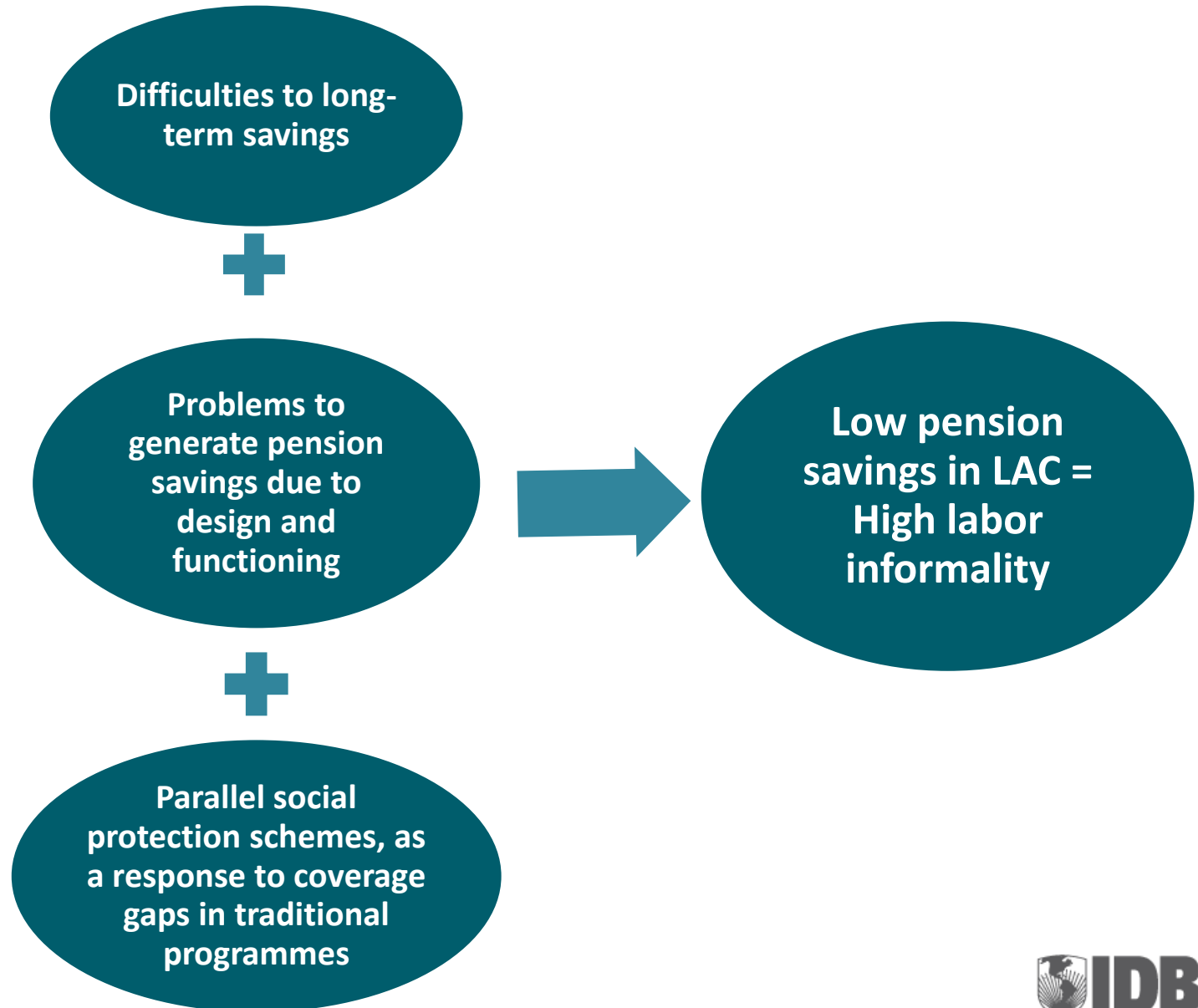
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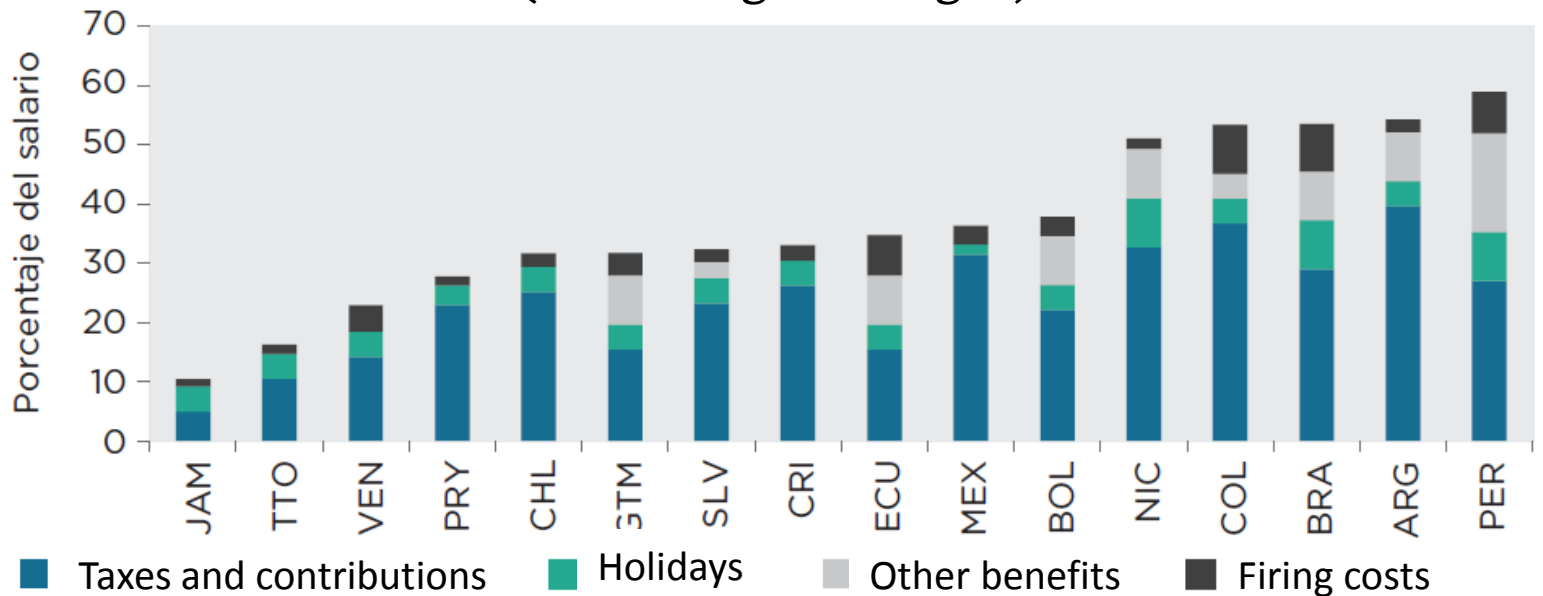
A conceptual framework to understand informality





High costs of formality (taxes and labor regulation) could be playing a role...

Cost of formality in selected economies in LAC (Percentage of wages)

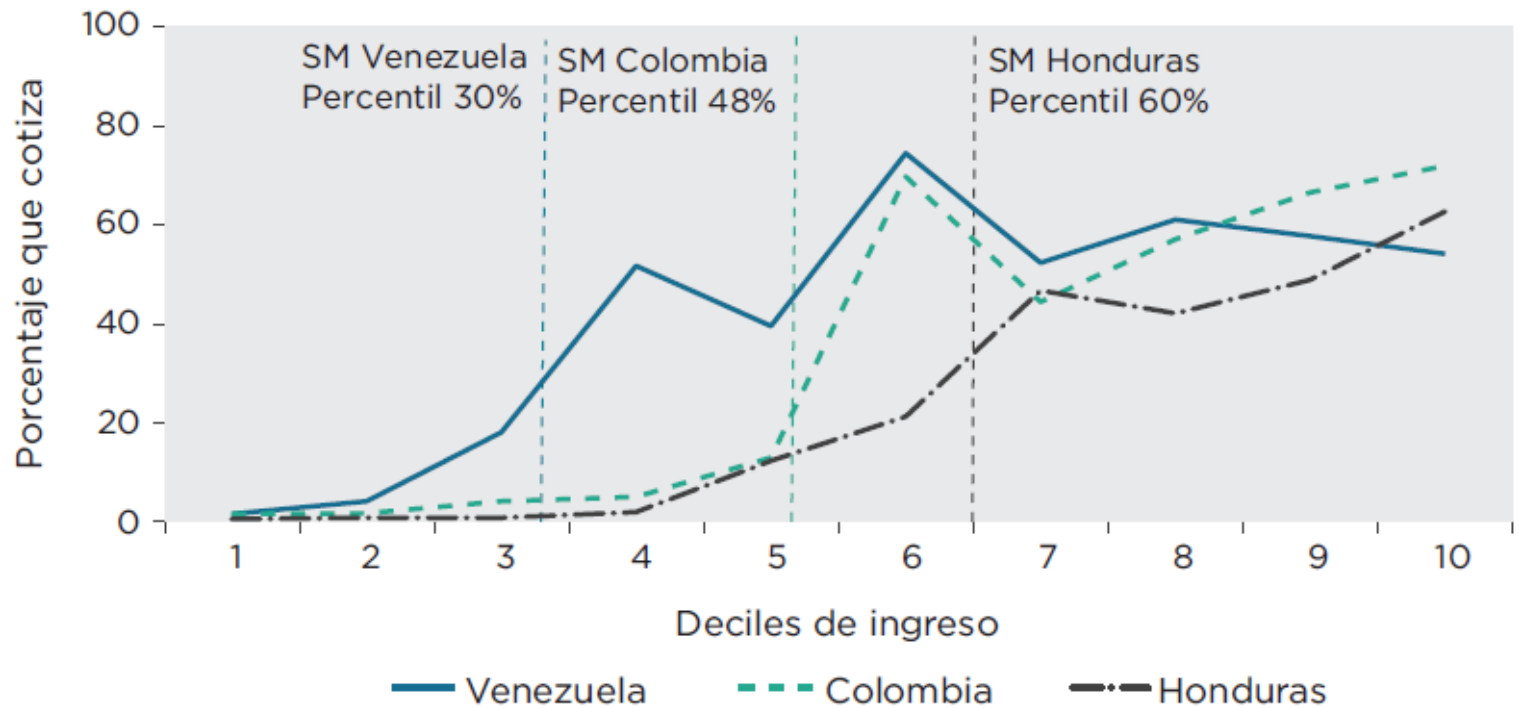


Source: Pagés (2010)



... especially when interacting with labor regulations

Share of workers contributing to pension schemes by income decile in Colombia, Honduras and Venezuela

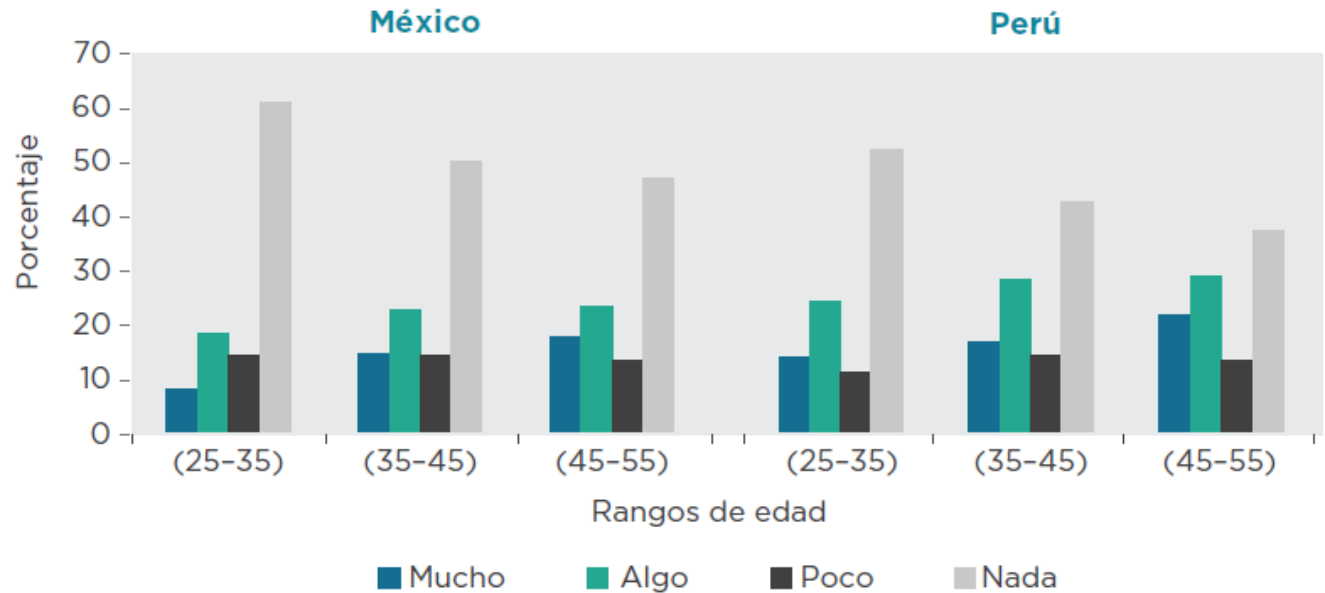


Source: Bosch, Melguizo and Pagés (2013)



Procrastination and overconfidence matter

Have you thought about financing your retirement?



Source: Bosch, Melguizo and Pagés (2013)

No savings strategy. Many citizens even believe they can finance retirement with less than 10 years of contributions



Informality is not an incurable disease

It is the outcome of:

- ❑ **Designs:** Systems exclude (*de jure* or *de facto*) non-wage earners.
- ❑ **Incentives:** Provided by the state in labor markets (including monitoring).
- ❑ **Value:** Placed by workers and firms on social security.

All this can be changed with **adequate policies**.



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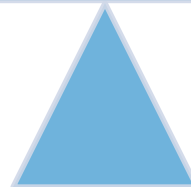
Policy makers are faced with two objectives

Increase coverage today

Secure coverage in the future

Non-contributory Pensions

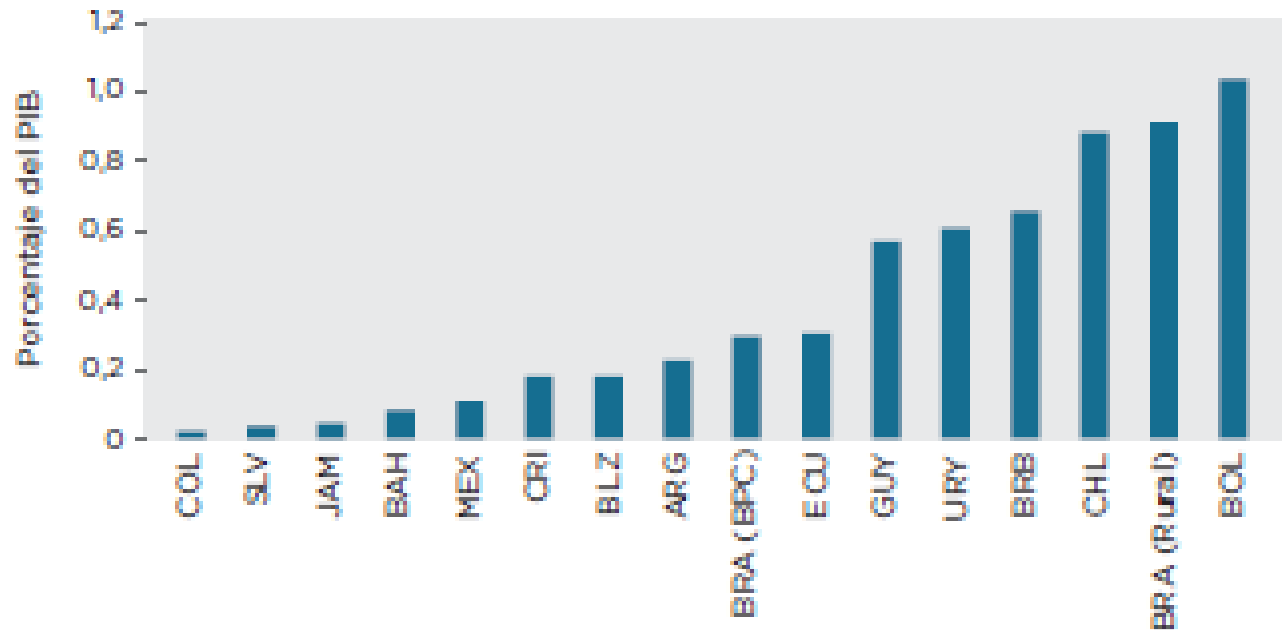
Increasing contributions





Non-contributory pensions are one of the most widespread innovations

Public expenditure in non-contributory pensions (Percentage of GDP)



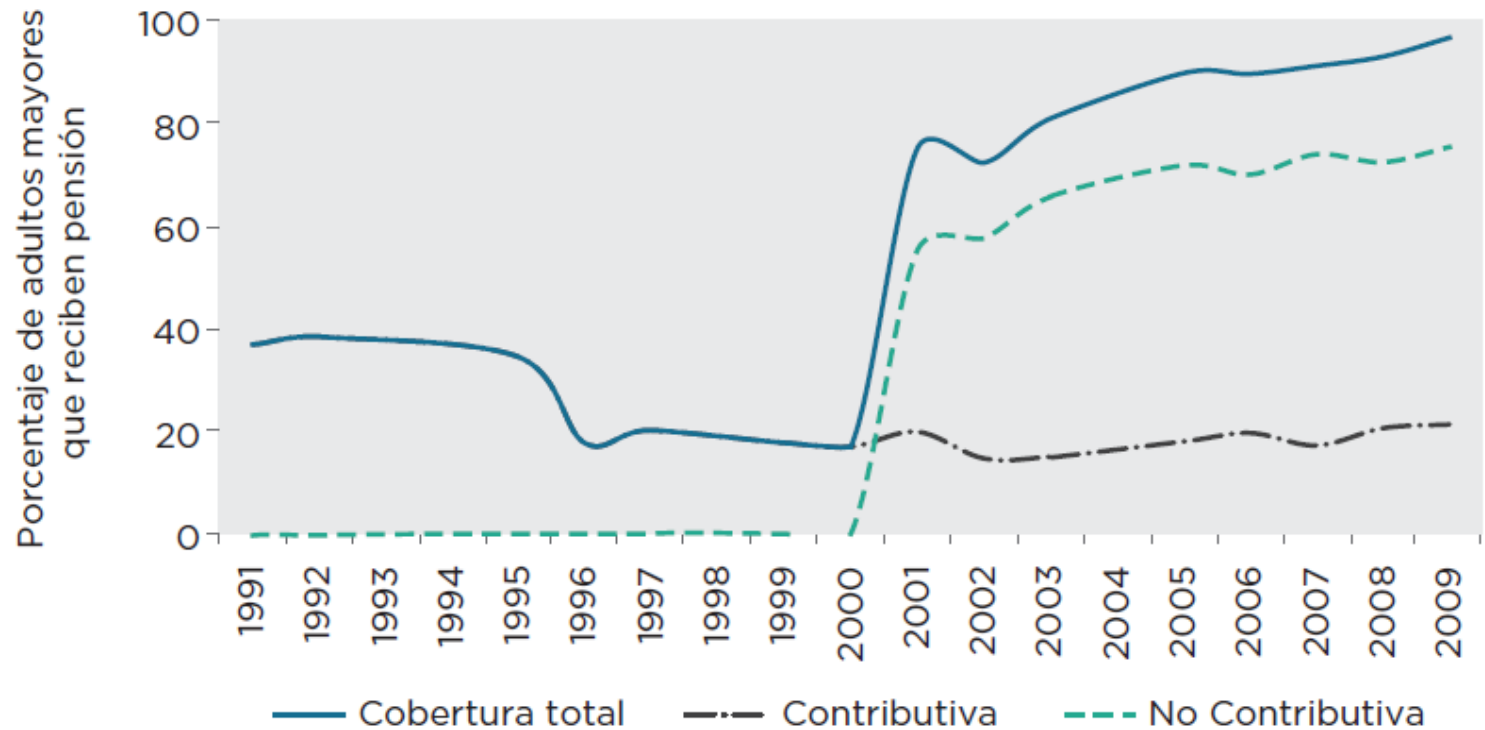
Fuente: Elaboración propia utilizando datos de HelpAge (2012).

With differences on generosity, eligibility (age, income) and integration with the contributory schemes



They are proving to be extremely effective in increasing coverage

Bolivia



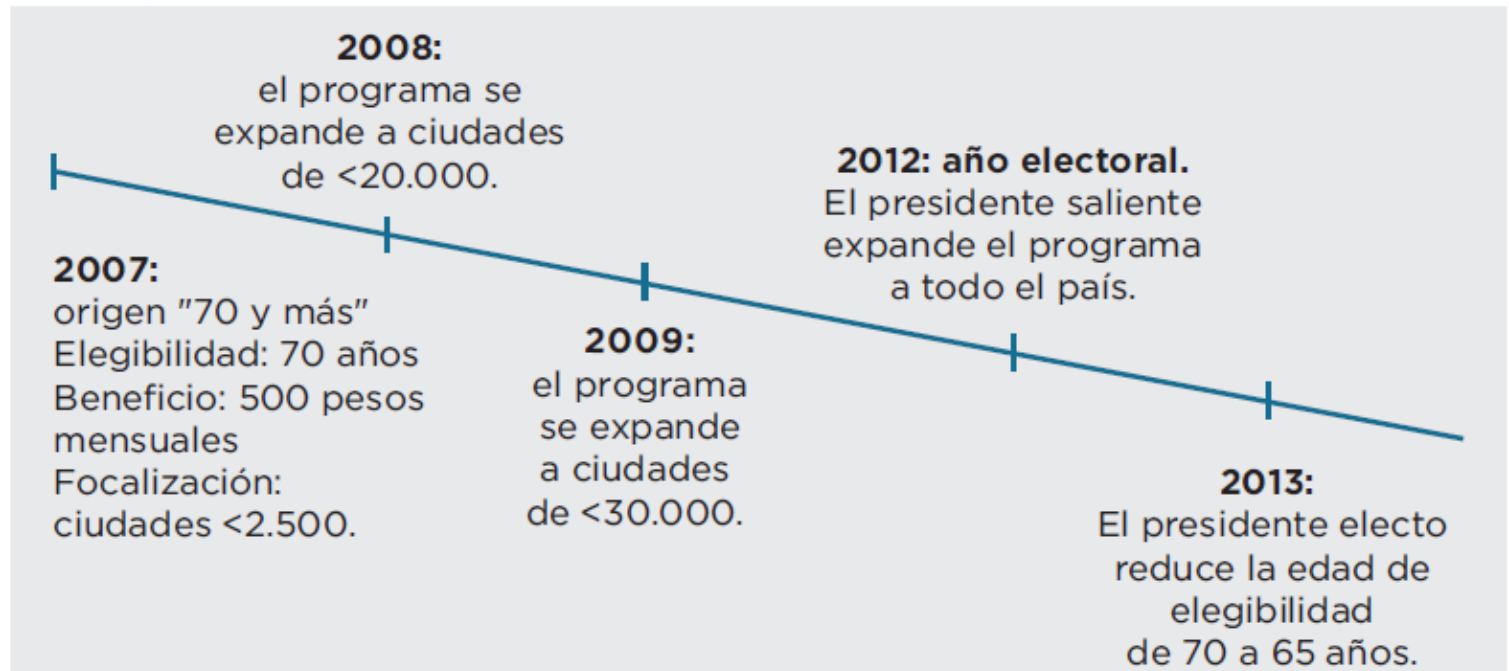
Source: Bosch, Melguizo and Pagés (2013)



However, institutions are not well established yet

The *slippery slope* of non-contributory pensions

México, 2007-12

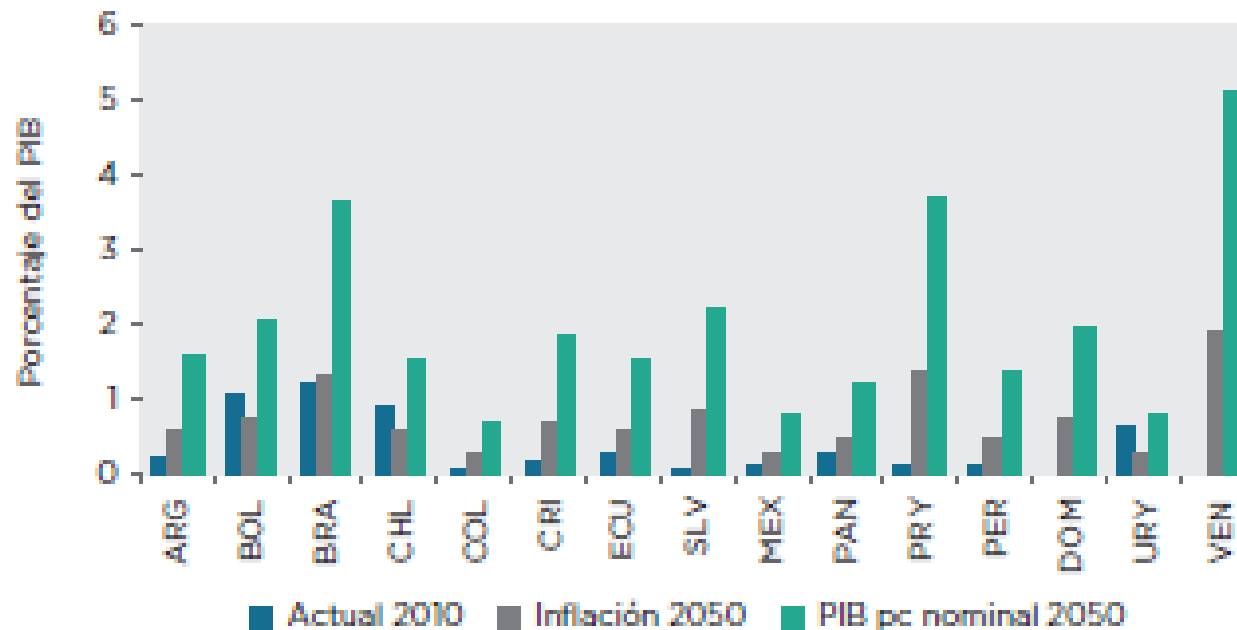


Source: Bosch, Melguizo and Pagés (2013)



Pension gaps could also be considered (potential) implicit debt

Public expenditure in non-contributory pensions, 2010 and 2050 (Inflation vs. GDP indexation, percentage of GDP)



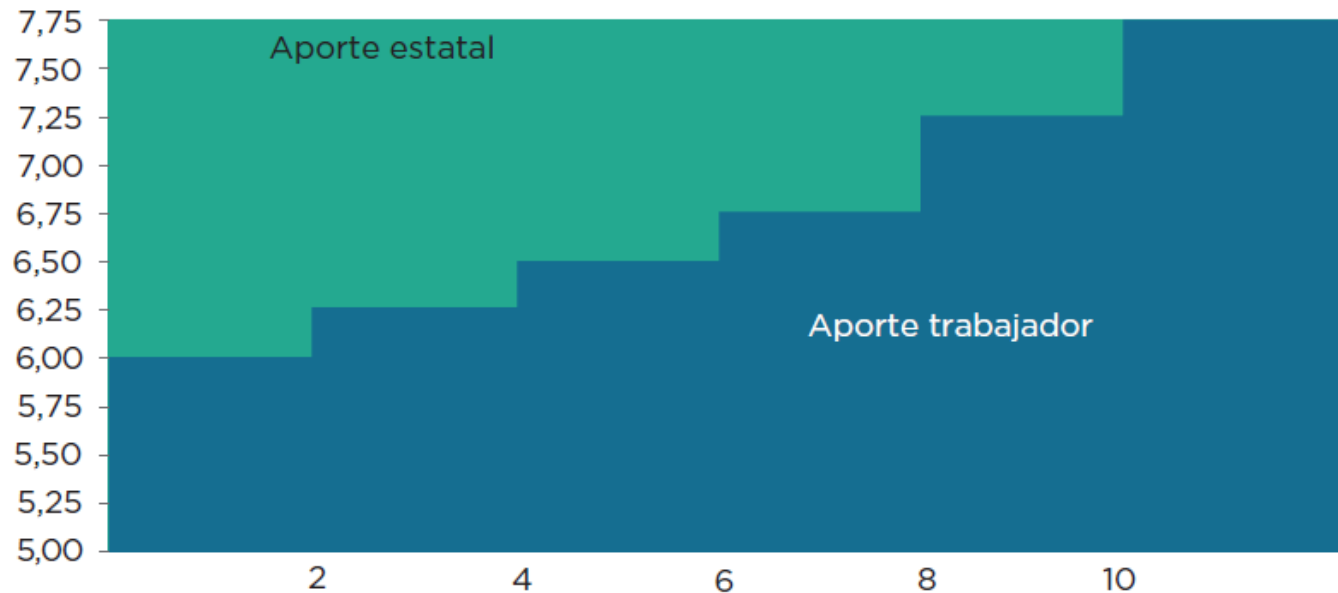
Fuente: Elaboración propia a partir de datos de HelpAge (2012).

Nota: Costo estimado de cubrir a los ciudadanos mayores de 65 años que se quedan sin pensión en 2050, con un nivel de pensión presente actualizado por inflación o por crecimiento del PIB per cápita nominal. En Bolivia se asume que se cubre a toda la población mayor de 65 años. En Brasil se incorpora tanto las pensiones rurales como el Beneficio de Prestación Continuada.



On the contributory side, interventions have focused on prices, benefiting particular groups...

Social contribution rate for independent workers in Costa Rica (Percentage of wages)

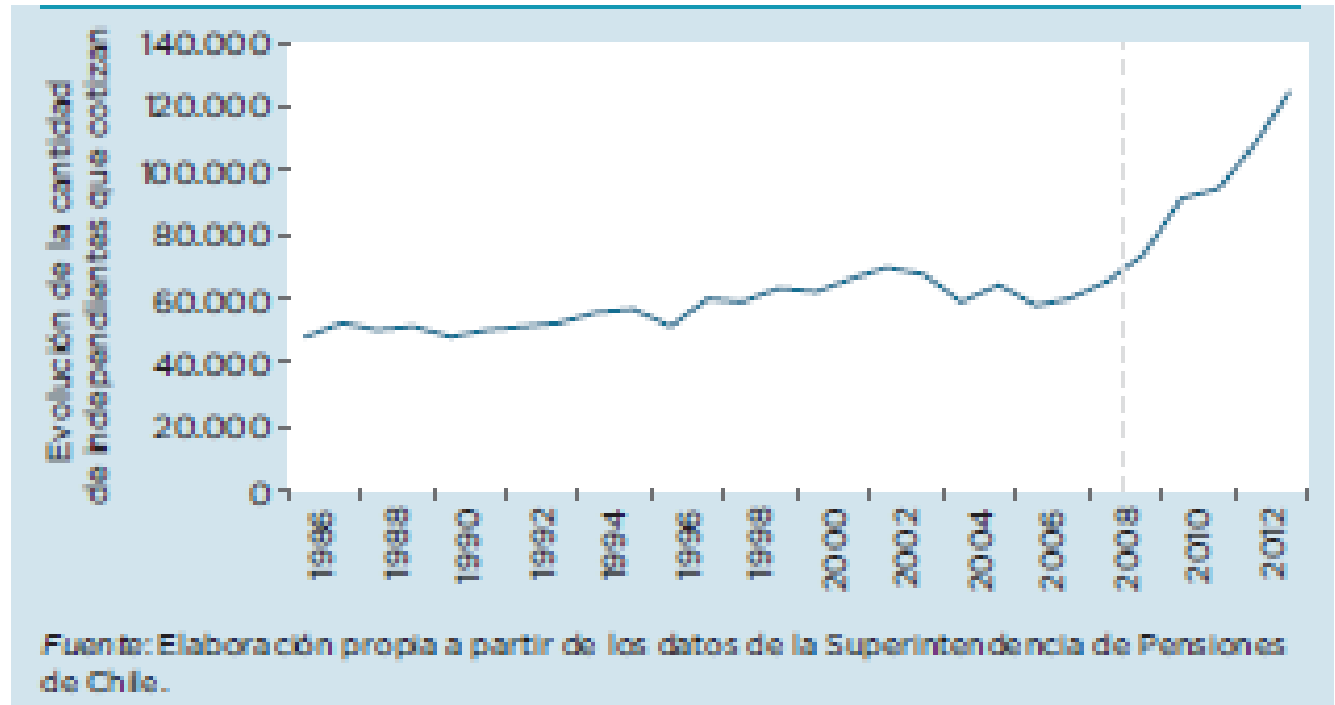


Source: Bosch, Melguizo and Pagés (2013)



... and on mandating and monitoring

Number of independent workers contributing to the pension system in Chile, 1986-2012



Source: Bosch, Melguizo and Pagés (2013)



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It's possible to eradicate poverty in old age and to increase formal employment

Better Pensions

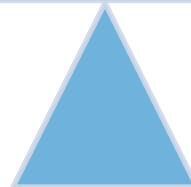
Social/universal pension

- Anti-poverty
- Sustainable
- Efficient

Better Jobs

Formal jobs subsidies

- Subsidizing SS contributions
- Innovating in channels
- Enforcement, information and financial literacy





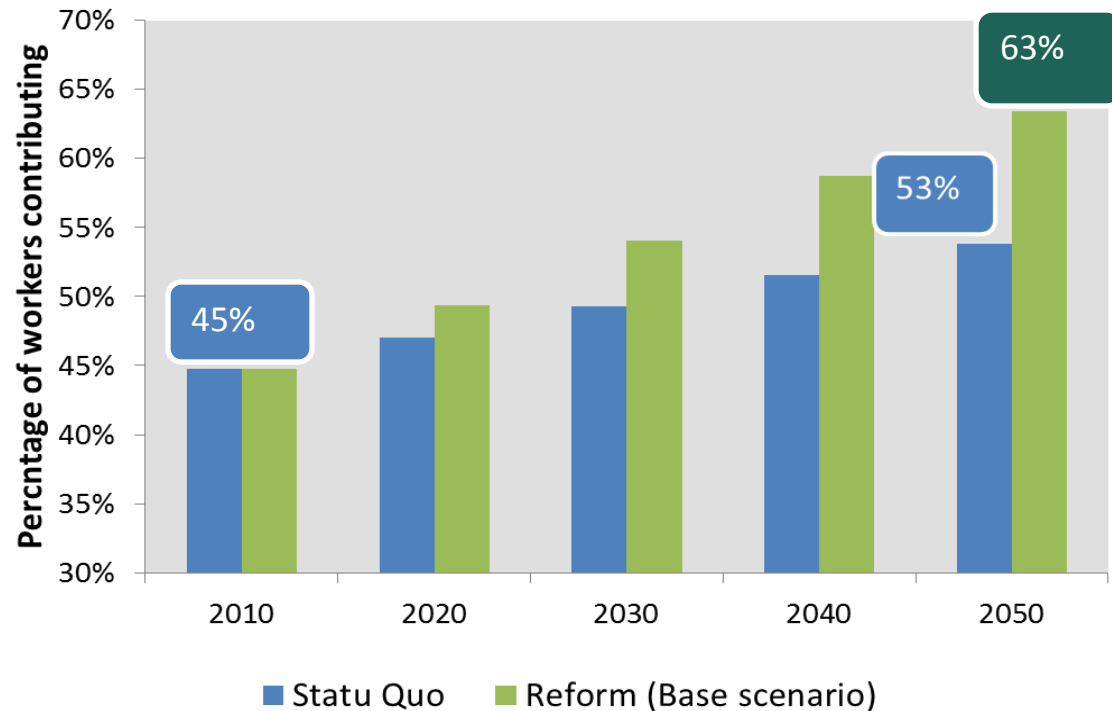
Better pensions: Anti-poverty pension

- ❑ **Universal: With age and residence criteria**
- ❑ **Anti poverty: 10%-20% of PIB per capita**
(in line with national poverty lines; 2010 poverty 65+: 19.3%)
- ❑ **Sustainable : Inflation adjusted, with sound fiscal institutions and funding sources**
- ❑ **Integrated: Compatible with a contributory pension**



Better jobs: Subsidizing formal employment

Formality could increase from 45% to 63% (10 p.p. higher than the *statu quo* scenario)



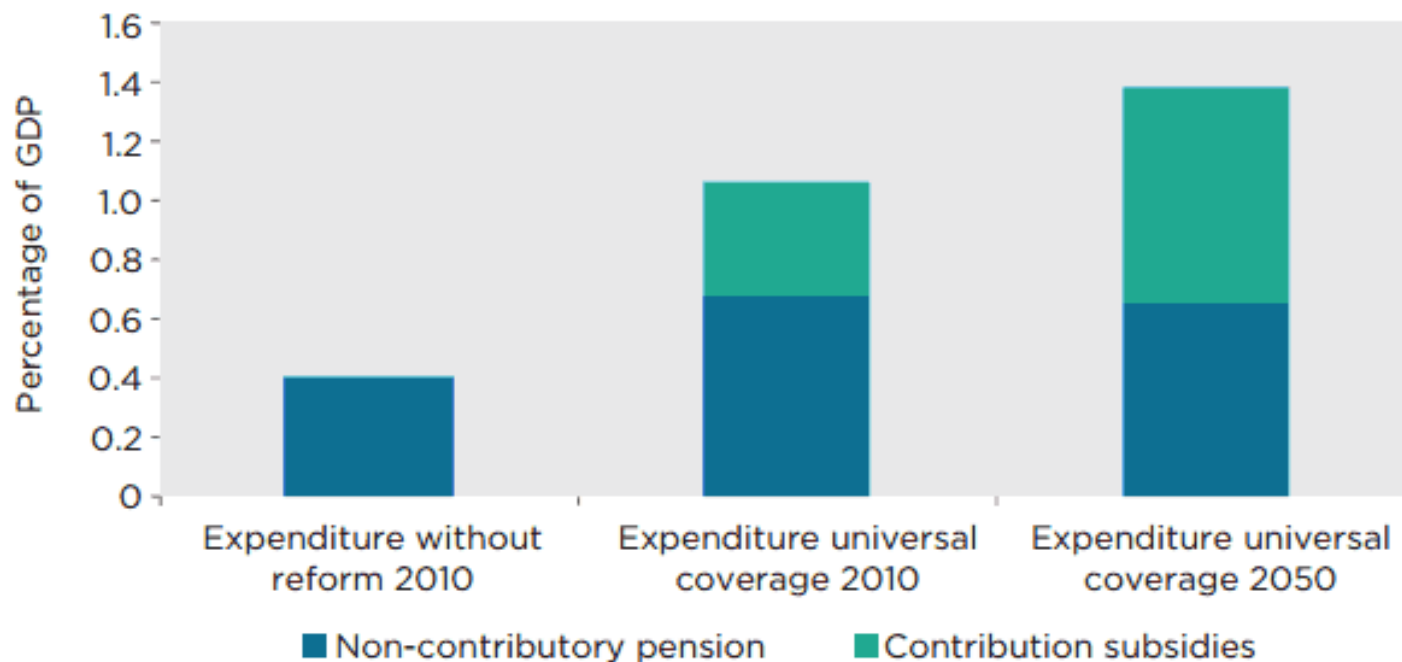
Source: Bosch, Melguizo and Pagés (2013)

(State subsidy for all workers/firms equivalent to 50% of total social security contribution of one minimum wage)



Better pensions and better jobs would cost annually on average for LAC 1.5% of GDP

Cost of pension reform, compared with current spending on non-contributory pensions

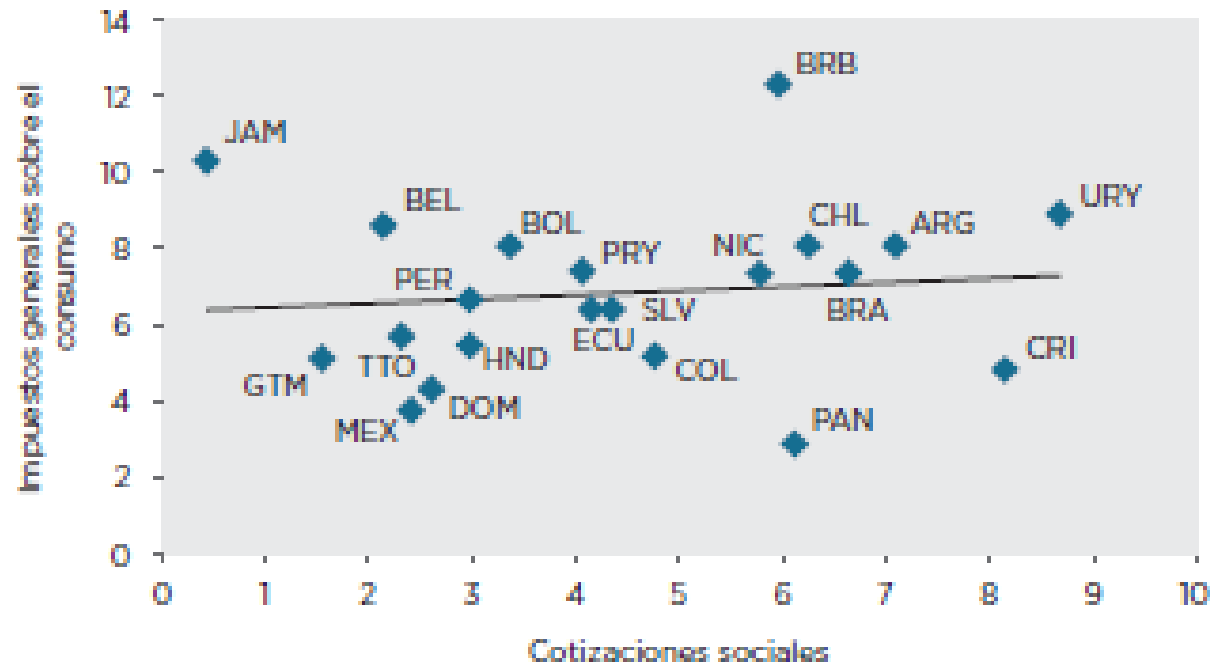


Source: Bosch, Melguizo, and Pagés (2013).



Financing choice would depend on current and future tax revenues

Consumption taxes and pension and health contributions in Latin America and the Caribbean, 2012 (Percentage of GDP)



Fuente: BID y CIAT (2012).

Nota: El dato de cotizaciones sociales incluye todos los aportes a pensiones y salud públicas y privadas de contribución obligatoria.



The time is now: financial and political economy challenges can be overcome

- ❑ **Demography:** The region is still young but the window of opportunity will rapidly close.
- ❑ **Financing:** Pension reform requires an increase in resources allocated to these policies, preferably from alternative sources (VAT, commodities).
- ❑ **Improvement in formal employment and productivity:** Pension reform is central to achieve both.
- ❑ **Political economy:** Formal employment is a central aspiration of the middle classes.



Research open questions

- **Accounting** pension implicit debt:
 - IPD
 - Pension coverage gap and non-contributory pensions
- **Growth** and informality
- **Taxes** and informality: Level and composition (VAT, Commodities), other institutions
- **Savings**: prices vs. **channels**



www.universalcoverage.net

