

“Re-reforms” of Privatized Pensions in Latin America: Argentina, Bolivia and Chile

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A) SUMMARY

In 1981-2010, 11 Latin American countries applied “**structural reforms**” to their public pension systems, totally or partially privatizing them.

Initial design flaws, differences in country features and poor performance, forced “**corrections**” that did not solve the fundamental problems

Three countries had substantial “**re-reforms**”: Argentina, Bolivia and Chile

At the end of 2014, 9 private systems left; 11 public systems

This presentation:

- identifies improvements and flaws of structural reforms, and
- evaluates whether re-reforms have coped with flaws and how, based on **9 social security principles:**

- 1. Social dialogue**
- 2. Universal coverage**
- 3. Equal treatment**
- 4. Social solidarity**
- 5. Gender equity**
- 6. Benefit sufficiency**
- 7. Efficiency and reasonable administrative costs**
- 8. Social participation in the administration**
- 9. Financial sustainability**

Summary of findings

Influences of re-reforms in rest of Latin America

B) STRUCTURAL REFORM IMPROVEMENTS AND FLAWS

IMPROVEMENTS

- Strengthened the relationship between contributions and pension levels
- improved efficiency in keeping individual accounts
- periodically reported their balance to the insured
- shortened the time for processing benefits
- achieved ample capital accumulation in pension fund and reasonable-to-high capital returns
- created ad hoc superintendence to oversee system

FLAWS

Universal paradigm that fitted all regardless significant socio-economic differences among countries worked in some and failed in others; most reform's assumed effects didn't materialize.

1. Social dialogue

- Chile's reform implemented by military government; other countries had debate

2. Coverage

- **Labor force** (EAP) stagnant Chile (61%), fell Argentina (45%), lowest/stagnant Bolivia (12%)
- **Elderly** fell except in Bolivia

3. Equal treatment

- Unification of all supplementary schemes Bolivia, most separate schemes Chile, a few in Argentina, left out armed forces and other groups

4. Social solidarity

- Absent in private systems (reasons) the state in charge of solidarity

5. Gender equity

- Discrimination partly from **labor market**, but also by the pension **system**
- **Accentuated in private** systems: lower female pensions (reasons)
- **Women** coverage/pension shares lower than men, fell in Argentina; higher elderly in Bolivia

6. Benefit sufficiency

- **Minimum pension** state-guaranteed; in Bolivia delayed
- **Compensation for contributions** to public system in Chile, delayed/restricted in Bolivia
- **Non-contributory** means-tested pension in Argentina and Chile ; Bolivia “universal pension”
- **Indexing** of pensions to inflation in Bolivia and Chile; at government discretion in Argentina.

7. Efficiency and reasonable administrative costs

- Private system managed by competing firms (AFP), charge commissions and premium
- Assumption that **competition will reduce costs** didn't work properly:
- duopoly in Bolivia; more AFPs in other 2 countries but falling, high concentration, etc.
- **Administrative costs** as % of wages: high 2-3%; lowest Bolivia (no competition)

8. Social participation in administration

- Elimination of **representation of insured and employers** in managing AFPs

9. Financial sustainability

- **Employer contribution** eliminated and shifted to worker in Bolivia and Chile
- **Transition costs** high, longer than anticipated and huge gov't debt: highest Chile 5% of GDP
- **Capital in fund/GDP** rising in all countries: Chile 59% , Bolivia 23%, Argentina 12%
- **Capital returns** falling in all countries:
 - Chile: 21% to 10%
 - Bolivia: 12% to 7%
 - Argentina: 9% to 8%
- **Investment portfolio** well diversified in Chile; highly concentrated in public debt in rest
- **Global financial crisis** sharply reduced capital and returns, halted further structural reforms

C) RE-REFORMS: FEATURES AND SOCIO-ECONOMIC EFFECTS

All re-reforms strengthened the state role in the pension system but with diverse approaches:

Chile (2008) kept the private system but improved it

Argentina (2008) and **Bolivia** (2010) closed private pillar & integrated it to public system

1. Social dialogue

- **Chile** ample public discussion, Advisory Council with wide representation
- **Bolivia** signed agreement with workers' federation, didn't consult all sectors
- **Argentina** little public discussion and congressional debates
- In both countries approved by gov't large majority in congress

2. Universal coverage

- EAP and elderly coverage **rose in all countries** due to inclusion policies
- **Chile's** self-employed mandatorily covered, non-contributory pension expanded
- **Argentina** included elderly in contributory scheme and expanded non-contributory pension
- **Bolivia** coverage of non-contributory pension universal

Table 1. Increase in Coverage by Re-reforms, 2007-2013

Countries	EAP	EAP	Elderly	Elderly
Re-reform	Before	After	Before	After
Argentina	45	48	84	90
Chile	61	65	57	84

3. Equal treatment

- The **armed forces/police** schemes or special conditions remain in all countries
- **Argentina** restored generous schemes of teachers, universities, diplomats, judiciary
- **Bolivia** granted more liberal conditions to some groups

4. Social Solidarity

Improved in all countries

- **Chile** kept the private system but added two state-financed “solidarity” benefits:
- A **basic solidarity pension** (PBS) ended waiting lists and fiscal restrictions, 60% of the poorest
- A **solidarity contribution** (APS) supplements contributory pension of those with low income
- The **employer** now pays the disability-survivor premium.
- **Argentina** extended contributory coverage, especially for lower income groups, removed some restrictions for elderly and mothers
- **Bolivia** universalized non-contributory pension, created semi-contributory pension, solidarity fund and contribution
- In Bolivia and **Chile**, the almost exclusive contribution on the worker infringes ILO norm

5. Gender equity

All improved gender equity compensating mothers for the time raising children:

- **Argentina:** non-contributory benefit to mothers with 7+ children and no means, universal allowance for each child
- **Chile:** voucher for each child born alive, regardless of income, credited to mother's individual account, accrues annual interest
- **Bolivia:** for solidarity pension, mothers with 10 years of contribution cut one year for each child born alive
- **The expansion of the non-contributory pension** in all 3 benefitted women more than men; elderly female coverage in 2012 was:
 - Argentina 92%
 - Chile 63%
 - Bolivia 54%

6. Benefits sufficiency

Improved in all countries:

- **Argentina:** increased contributory, minimum and basic pensions
- **Bolivia:** new semi-contributory pension (state subsidy), guaranteed individual accounts
- **Chile:** the PBS 80% higher than previous benefit, APS raised contributory pension
- **All countries** expanded **non-contributory pension** and its amount (Bolivia very low)
- **Pension indexation:**
 - Chile and Bolivia** unchanged
 - Argentina** now based on wages and contributions

7. Efficiency and reasonable administrative costs

- **Argentina** ended competition and all fees
- **Bolivia**: until public administrator is set, **2 AFP** perform all its functions; fees unchanged
- **Chile** stimulated competition:

biannual **bidding** assigns new labor-force entrants to AFP offering lowest fees
net commission fell from 1.63% to 1.14% and winner cut to 0.47%

8. Social participation

- **None** introduced **direct social representation** in the management of the pension fund
- Argentina & Chile set **advisory boards** improving somewhat prior total vacuum

9. Financial Sustainability

Table 2. Accumulated Capital, Capital Returns and Portfolio Concentration, 2013

Countries	Capital in fund		Real capital return (%)	Invested in 2 major instruments (%)		
	Million US\$	% GDP		State debt	Other	Total
Chile	162,988	62	8,7	22	42	64
Bolivia	9,340	30	5,4	36	44	80
Argentina ^a	48,537	11	-3,0	59	14	73

- **Contributions** largely unchanged in Argentina and Chile, rose in Bolivia
- **Fiscal costs of the transition:**
- **Chile** 1.6% of GDP in 2013; re-reform 0.7%; financial sustainability ensured
- **Argentina and Bolivia** re-reforms **not supported by actuarial studies**; face substantial obligations from insured in the public system and in closed private system/pillar
- **Argentina** prior public system had large state-financed annual deficit, halted by shifting private funds to public fund; deficit will increase 5-fold in 2010-50
- **Bolivia** financial balance can't be estimated; no long-term financial projections of 5 funds

D) CONCLUSIONS

The three re-reforms have improved most flaws of the structural reforms:

1. **Social dialogue:** Chile wide, Bolivia partial, none in Argentina
2. **Coverage:** increased both for EAP and elderly
3. **Equal treatment:** separate schemes continue, some added
4. **Social solidarity:** improved in all
5. **Gender equity:** improved in all
6. **Benefits sufficiency:** improved in all
7. **Efficiency and reasonable administrative costs:** competition/fess eliminated in Argentina , unchanged in Bolivia, improved in Chile
8. **Social participation:** not restored, advisory boards in Argentina and Chile
9. **Financial sustainability:** strong in Chile, weak in the rest.

- The structural reform was considered a panacea by IFO and many experts and the re-reform should not follow that path
- Both must be preceded by a social dialogue and actuarial studies, be carefully designed taking into account the peculiarities of the country, and improve social security principles
- Re-reform doesn't have to close private system, Chile kept & greatly improved it
- Closing the private system/pillar and integrating it into a public system is viable with the cautions noted particularly on financial sustainability
- Influence in other L A countries with total or partially privatized pension systems

Chile : Presidential Commission 2014-15 elaborating proposal second re-reform

El Salvador: ILO conducting study for re-reform

Peru: Diagnosis and proposal for re-reform