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# Pension Reform in Latin America

Past, present and future

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**Specialised Seminar in Social Security**

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# Presentation

- Why Latin America
- Why reform?
- Main features of the pension reform
- Pension reform effects
- Conclusion

# Why Latin America

- First important structural pension reform
- Crisis and complaints on all grounds
- Different distribution of responsibilities
- 12 countries reformed their schemes

# Why Reform?

- Coverage problems
- Future liabilities
- Value of benefits
- Mismanagement
- Cost of Survivor and disability benefits
- Macroeconomic effects

# Pension Reform Features

- Multipillar model inspiration
- Mixed, Parallel or Substituted schemes
- Mainly for private-sector employees
- Contributory schemes and solidarity

# Pension Reform Features cont.

- Complex benefit structure
- Minimum benefits
- Investment framework & minimum returns
- Multifunds (Chile, Peru & Mexico)

# Pension Reform Effects

## ■ Desired

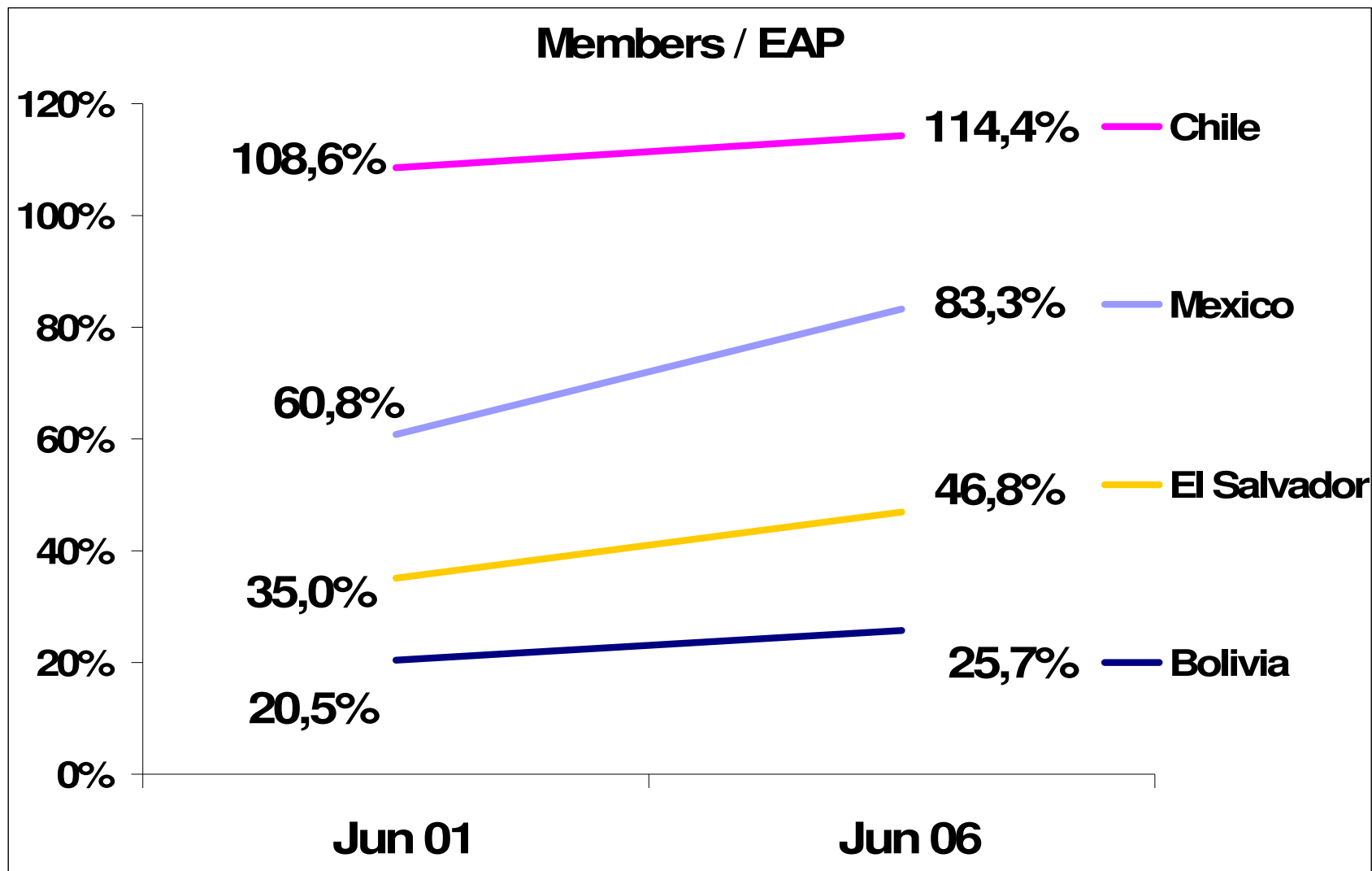
- Coverage extension
- Adequate level of benefits
- Financial sustainability
- Face demographic challenge
- Face a changing labour market
- Avoid political interference
- More transparency and efficiency

# Pension Reform Effects cont.

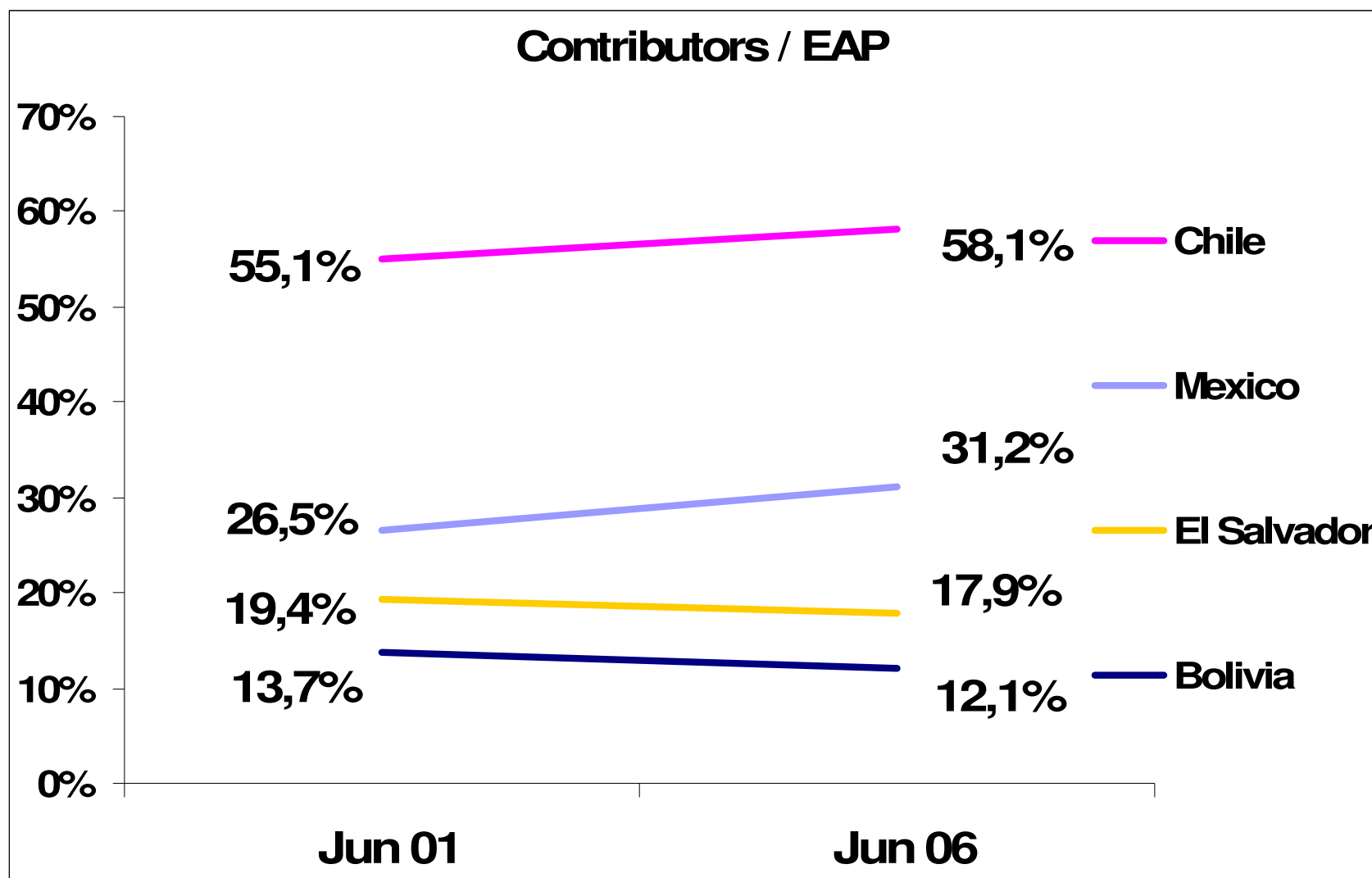
## ■ Facts

- Not clear effect on coverage**
- Contribution enforcement problems
- Expensive schemes
- High returns

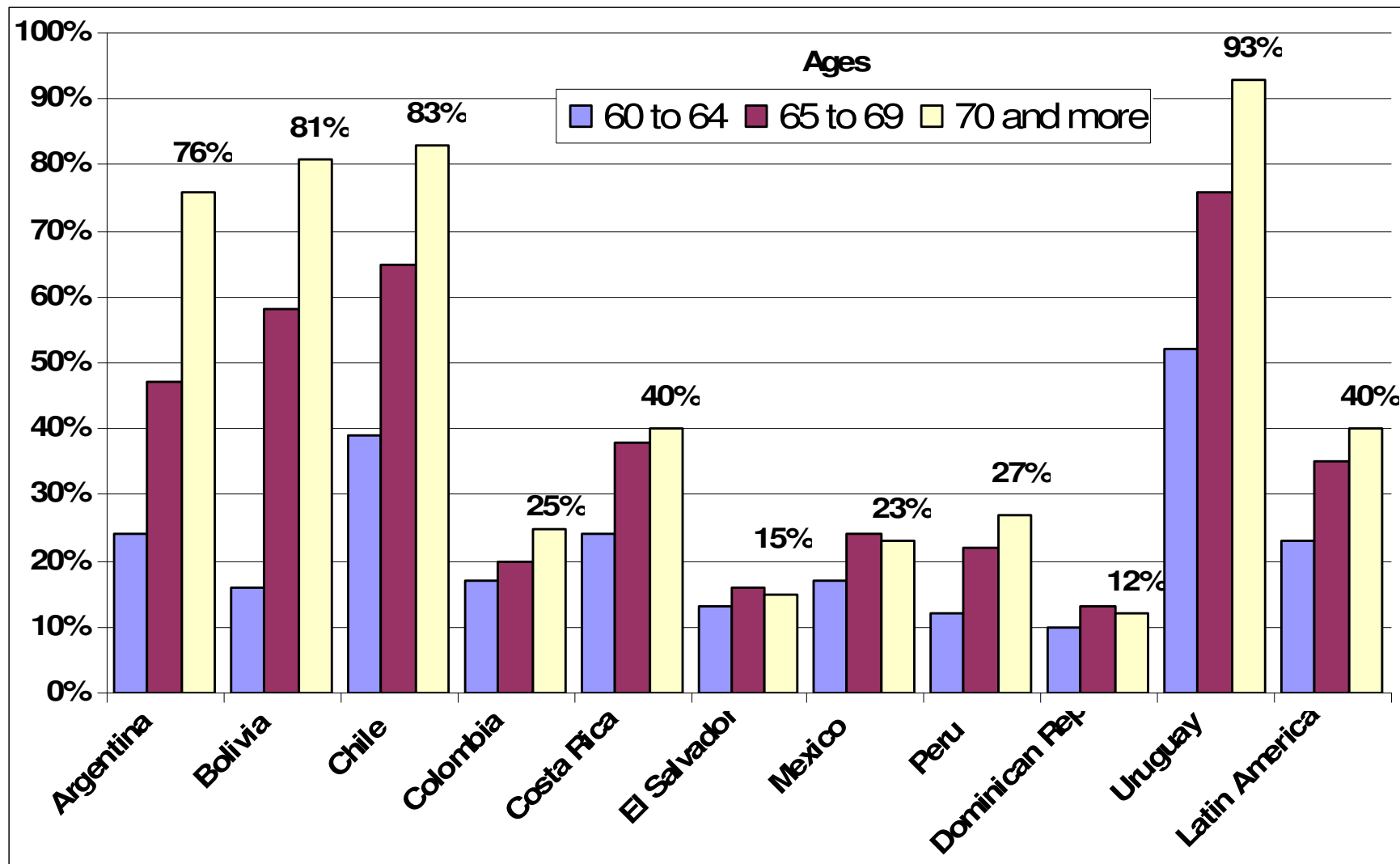
# Coverage - EAP



# Coverage - EAP cont.



# Coverage - Benefits

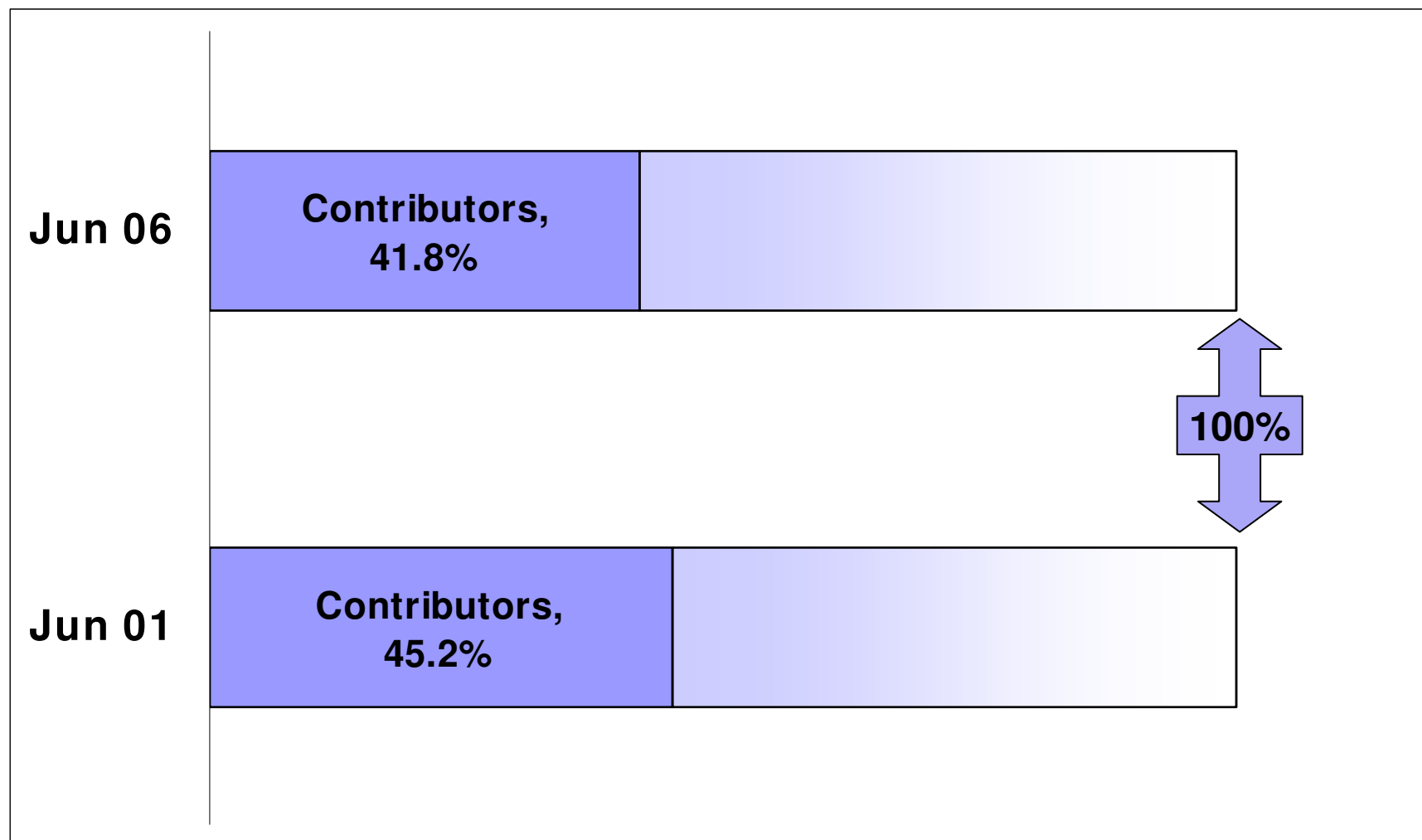


# Pension Reform Effects cont.

## ■ Facts

- Not clear effect on coverage
- Contribution enforcement problems**
- Expensive schemes
- High returns

# Contribution Problems

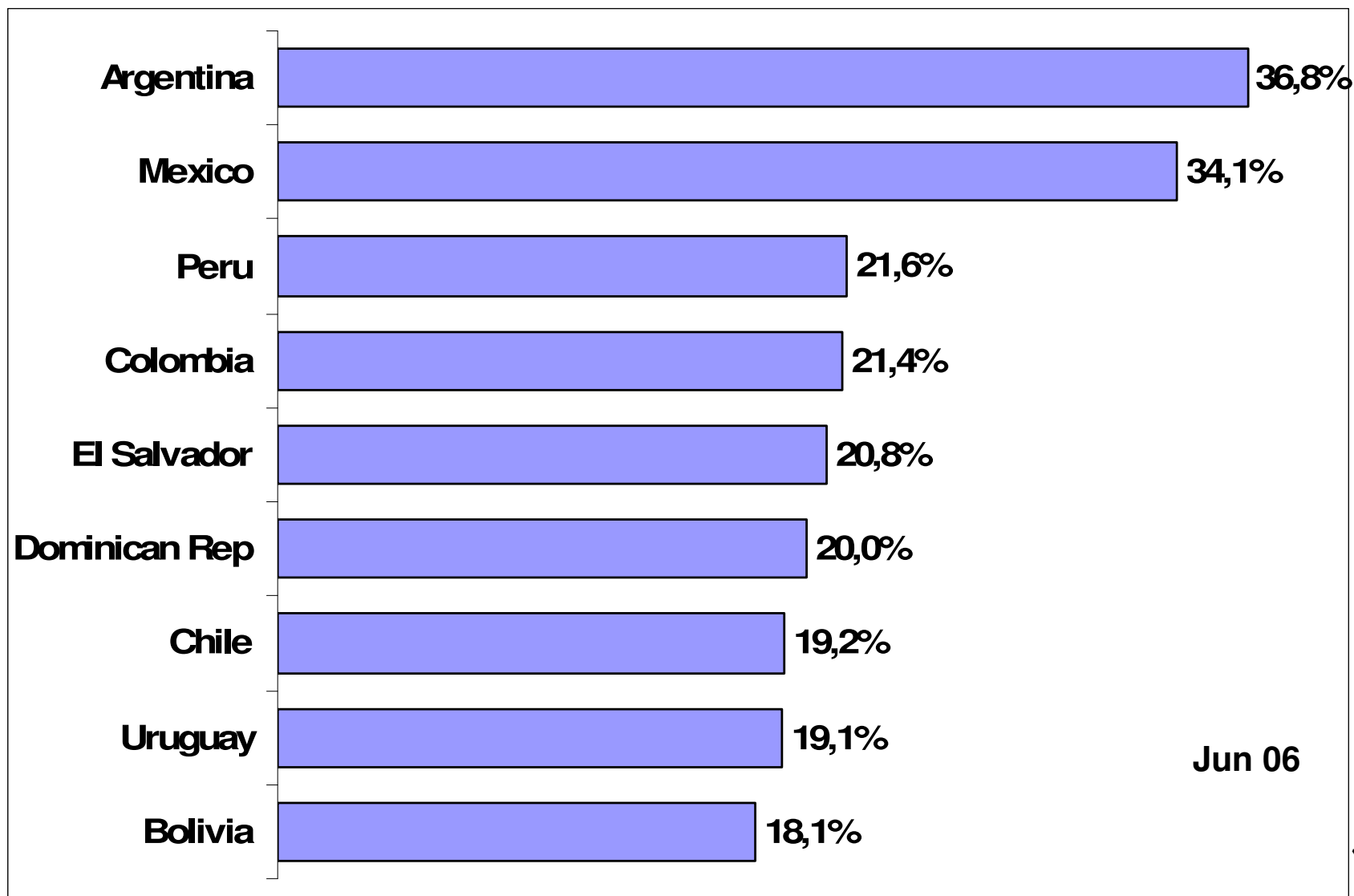


# Pension Reform Effects cont.

## ■ Facts

- Not clear effect on coverage
- Contribution enforcement problems
- **Expensive schemes**
- High returns

# Contributions not Invested



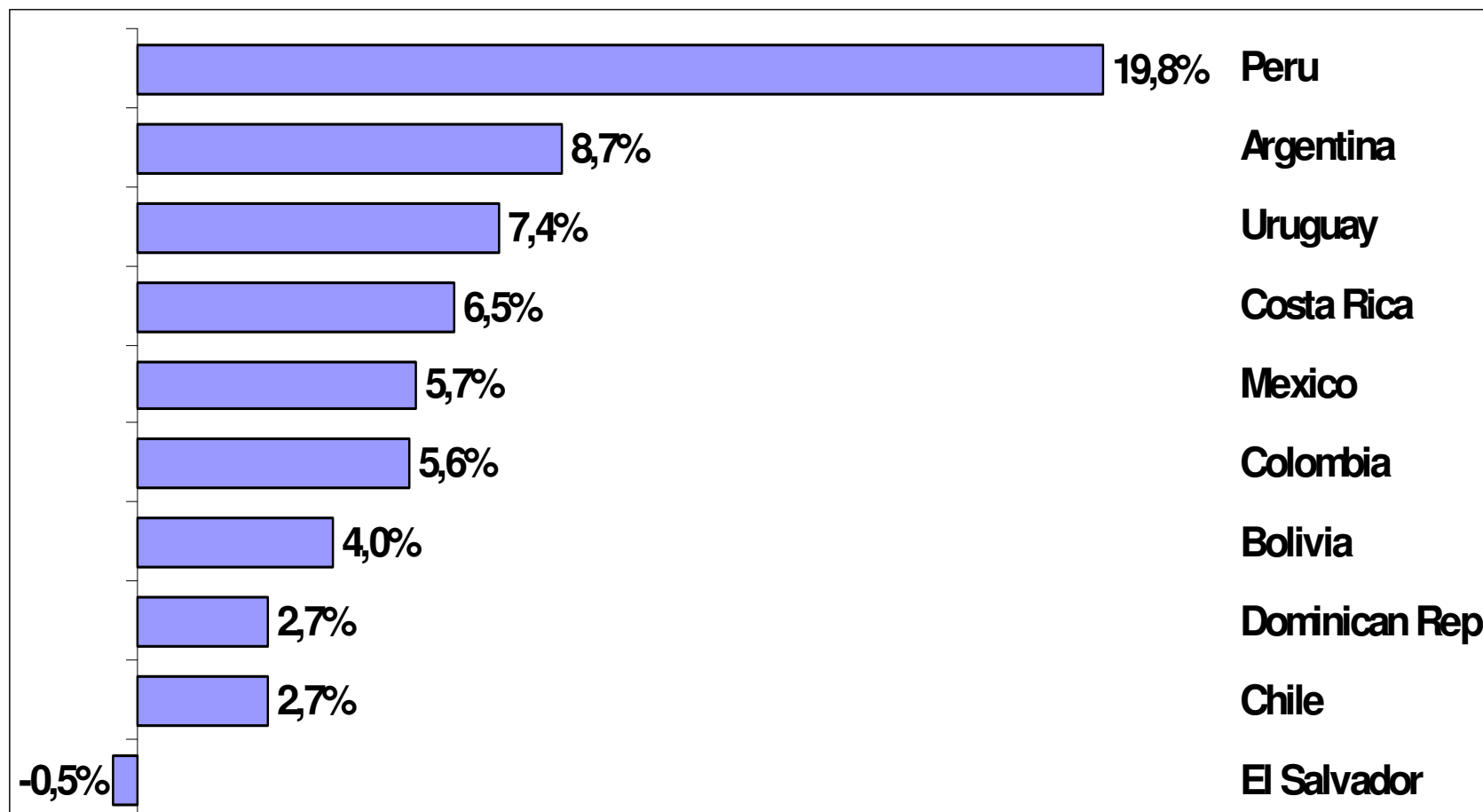
# Pension Reform Effects cont.

## ■ Facts

- Not clear effect on coverage
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- Expensive schemes
- High returns**

# Gross Real Rate of Returns

Jun 05 – Jun 06

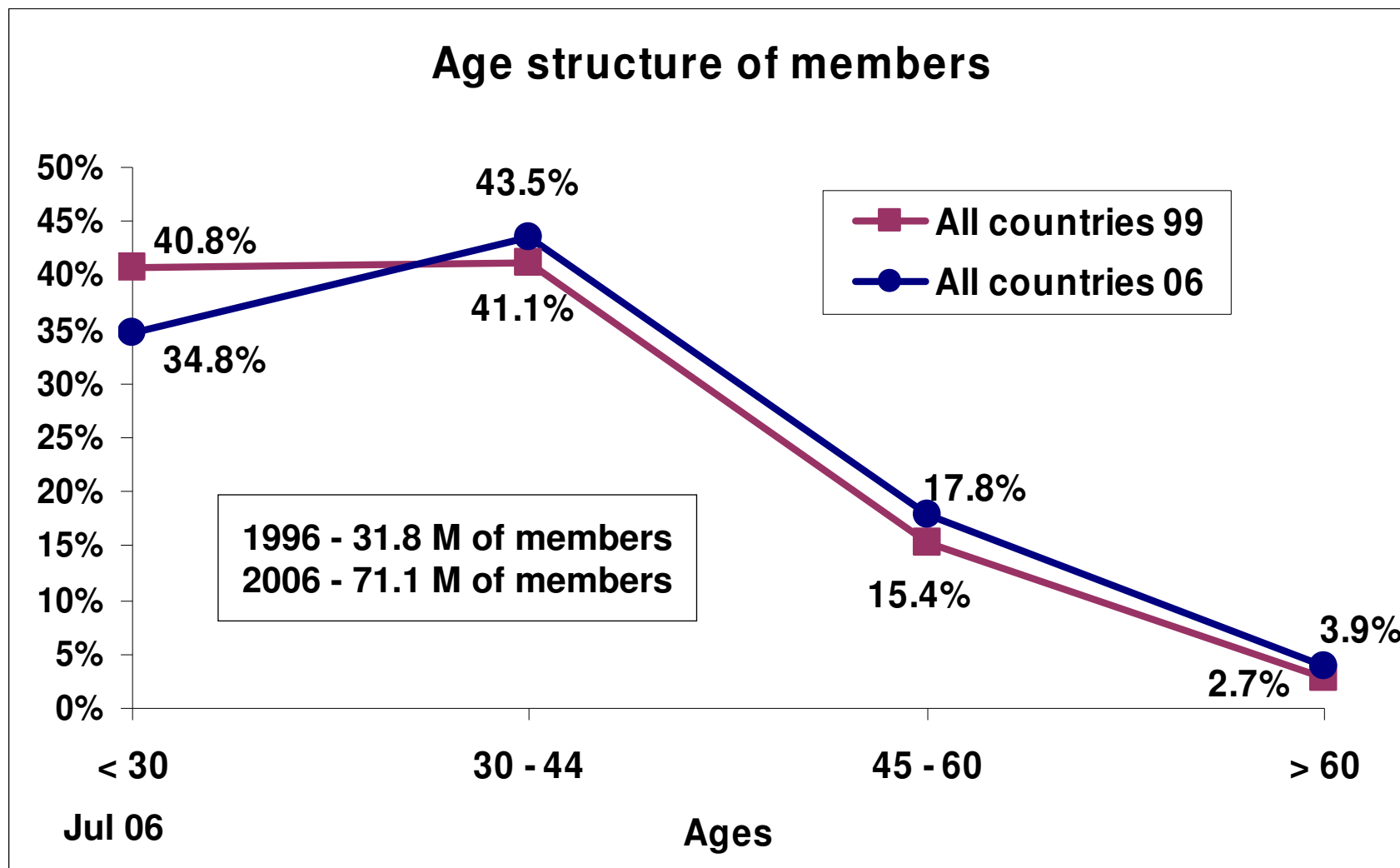


**Total Assets = USD 190 billion**

# Conclusion

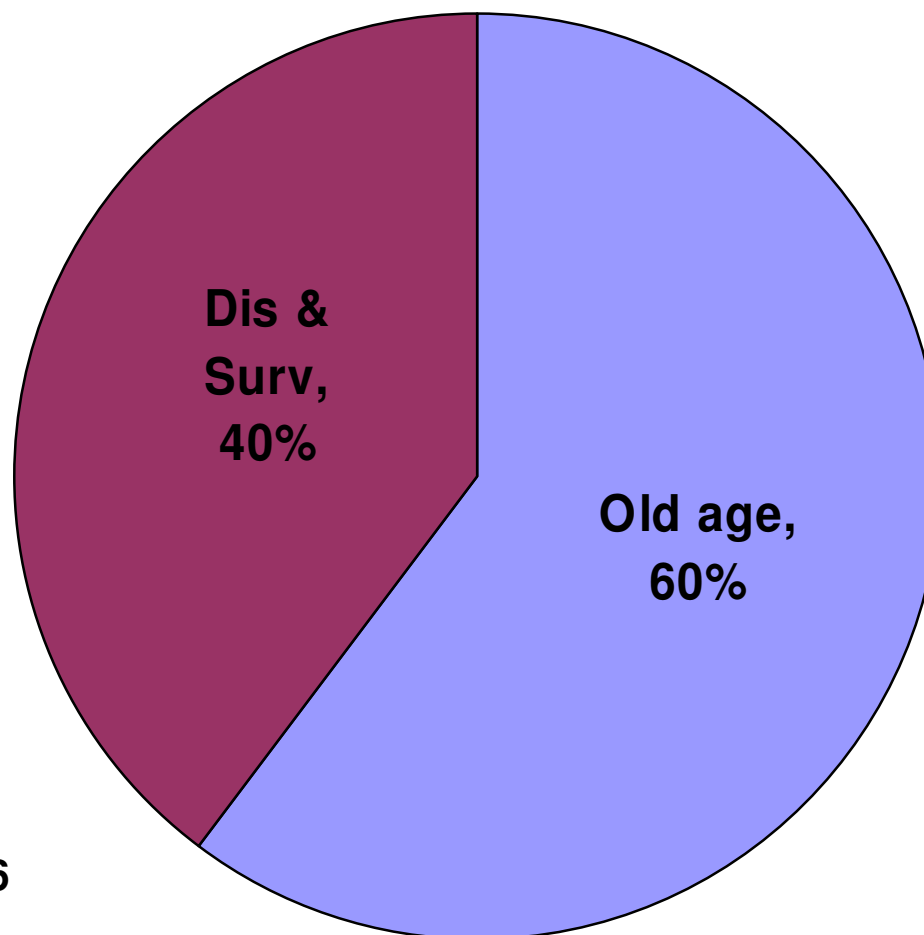
- **No definitive conclusions**
- Unification of pension schemes
- Improvement in efficiency
- Cost of the transition
- Saving schemes and saving capacity
- Reform reforms?

# Why Preliminary?



# Why Preliminary? cont.

**Benefit Structure**



Jul 06

# Conclusion cont.

- No definitive conclusions
- Unification of pension schemes
- Improvement in efficiency
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# Implicit Pension Debt (% of GDP)

	Discount rate		
	2%	4%	5%
<b>Argentina</b>	106	85	78
<b>Bolivia</b>	111	73	62
<b>Chile</b>	77	60	53
<b>Colombia</b>	88	56	46
<b>Costa Rica</b>	203	121	97
<b>El Salvador</b>	80	49	40
<b>Mexico</b>	60	43	37
<b>Peru</b>	101	65	54
<b>Dominican Rep</b>	57	33	26
<b>Uruguay</b>	295	214	187

Source: 2002, Implicit Pension Debt: Issues, Measurement and Scope in International Perspective. Holzmann, Palacios, Zviniene

# Conclusion cont.

- No definitive conclusions
- Unification of pension schemes
- Improvement in efficiency
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Thank you very much



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