

Pensions Observatory

Structural changes in the Argentinean retirement system

The objective of this report is to shed light on the effects of the latest structural changes in Argentina's retirement and pension system, using the data presently available concerning the first direct effects of the regulatory changes and forecasting the behaviour of these variables in years to come. The analysis does not contain considerations regarding the financing of the system from other taxes, that is only the "genuine" financing (from the Social Security's own collection) of the national retirements and pensions system will be covered hereby..

Current estimates should be seen as preliminary, given that they do not include the levels of transfers to the pay-as-you-go system which will effectively be materialised in 2008 as a result of the voluntary decision of the individuals registered to the private pension plan system regime aged below 55/50 years, depending on whether they are male or female, or if below this age, they have balances above \$20,000 in their private pension plan accounts.

Nevertheless, the table shows the different adjustments which would affect both revenues and expenses of the Social Security, which could have an impact on the financing thereof. Therefore, in 2007 the table starts to show the combination of the stock and flow effects of the different measures. In subsequent years, it shows the collection and spending levels of each one of the items, except for those pertaining to the collection related to adjustments in the salaries seen in the economy and also of the retirement expenses when year-on-year increase levels are shown in the table.

Factors affecting revenues

The factors which will affect system revenues in 2007 include those stemming from the 600,000 special accounts which were affected by current legislation. Moreover they also include those funds accumulated by public employees with special retirement regimes and forcefully channelled into the public pay-as-you-go system¹. In 2007, this change gave rise to a stock increase in revenues due to the transfer of the accumulated funds and a flow effect due to the contributions of these members in the remaining months of 2007, which will continue to be verified in coming years.

¹ The staff carrying out activities in the *Foreign Affairs Ministry*, Courts of Law public employees, schoolteachers included in Act 24.016, researchers, educational staff and others included in Act 22.929.

December 17th 2007

Ernesto M. Di Rocco
Pension Economist

BBVA Pensions Analysis Unit
ernesto.dirocco@bancofrances.com.ar

A second factor which will affect the ANSES revenues concerns the new destination of employees joining the formal job market (i.e. with a clean slate), but who do not explicitly opt for either one of the systems within 90 days of having carried out their job registration. Formerly, the “undecided” were channelled into the private pension system, and, pursuant to Act 26.222, since 12 April they have been transferred to the public pay-as-you-go system. By this, the amounts to be paid into the public system will be increased, prompting a higher level of revenues. In this regard, it is not only a question of job creation but rather of reducing the informal job market – here significant progress has been made in recent times, but this is still insufficient given the number of individuals who continue to work outside the legal system.

The third factor directly affecting revenues concerns those persons who were registered with the private pension system and who have accumulated a balance of less than 250 MOPREs (\$20,000) upon reaching 50 years for females and 55 for males, on 12 July 2007. This segment of population was transferred to the public pay-as-you-go system (except for those who expressly indicated that they wished to continue with the private pension system), as set out in the new legislation. This transfer involved over one million persons, implying in 2007 a revenue of around \$4,600 million due to the funds accumulated by them in their individual accounts and which were transferred in kind to the public administration. The rest of the estimated revenues for 2007 and for later years arises from the estimated contributions against revenues of this group in future.

A fourth factor relates to the estimated revenues stemming from the pension moratoria imposed by Acts 25.994², 24.476 and 25.865 and Decree 1454/05³ which, for the purpose of improving social indicators, such as the level of coverage of the population (and thereby allow social inclusion), reducing the population living below the poverty line, maintaining levels of expansion in GDP at high levels due to the direct effect on current consumption and higher health cover for the population involved, have been fostered from the public sector.

These laws imply the constitution of payment plans allowing the regulation of debt for those persons subject to these laws. The basic characteristics are that these plans consist of 60 equal and successive payments allowing the sum owed to be cancelled (on average the debt comes to \$ 14,500 for the population which has paid into the payment plan and which had the possibility of retiring starting from the payment of the first instalment). This implies that in future years they will generate a relevant revenue effect on pension accounts, which

2 Known as the Early Retirement Act, intended for the unemployed population with fewer than 5 years remaining to reach the minimum retirement age and with the required 30 years of contribution.

3 Known as the pension moratoria laws used for the purpose of regulating contributions owed by self-employed workers accumulated up to September 1993. There are two ways of applying for this rule. The first is intended for persons over 60 in women and over 65 for men, and who, once they have registered with the regime, then begin to earn a benefit. It also applies to persons who have not reached retirement age, but who know that once they reach said age they will not have the number of years with the required contributions and who therefore register for this system to reach the 30 years of contributions required to secure full retirement. It is no longer now possible to apply for the first option, while the second remains in force.

shall be largely eliminated by the beginning of 2012, in accordance with information available.

The fifth and final factor affecting revenues will concern the collection arising as a result of the growth in salaries in future years. For this purpose, a growth trend was assumed allowing the salary mass to be adjusted at a rate which might reflect inflation and the rise in productivity per employee. By this means, the growth in salaries in the economy as a whole will increase the pension revenues of the ANSES both from the company contributions pertaining to all registered employees and also the personal contributions of those individuals registered in the pay-as-you-go sub-system. The weight of this factor remains at relatively stable levels in light of the lower expected job creation in future years compared to that observed in recent ones. This factor could be increased in the future by the transfer of contributors from the private pension system to the pay-as-you-go system, which has not yet been measured.

Therefore, it is evident that given the high influence of stock effects in 2007, the factors affecting revenues are 45% higher than the flow of revenues expected for the 2008-2012 period. In 2012, we can see the sharp fall in the self-financing of the public social security system on completion of the moratoria instalments, which could be offset at that time by the new window period allowing current members of the Integrated Social Security System to choose once again between the systems to which they wish to contribute.

Factors affecting expenses

Furthermore, when we observe the factors affecting system expenses, it is evident that the first factor behind the growth in expenses is the result of the aforementioned pension moratoria. The annual sum of same exceeds (on average), over the period under analysis, the \$ 10,000 million annually from the over 1,400,000 persons who paid into the financed regime.⁴

Moreover, the future upticks in pensions which would have to be observed in order to comply with the different rulings of the Court in this regard is a factor affecting the rate of growth in expenses. The base case is therefore of the 2007 estimate of the effects of the growth in payments observed at the start of the year, adding the new growth in pensions for the third quarter, which would put growth in benefit payments at \$2,800 million for the year. For other years, we are assuming an increase in benefits in line with the performance of salaries, reflecting a certain degree of mobility in benefits.

The third factor to be taken into account as a result of the changes introduced with the Law amending the previous Law 24.241 is that referring to the increase in the calculation of the Additional Benefit for Permanence (PAP by its Spanish acronym) which was changed from being counted at 0.85% to 1.5% per annum contributed to the pay-as-you-go regime and calculated on the salary level

⁴ In operating terms, the net spending of funds is lower as it is the difference between the payments made by ANSES and the withholding of payment agreed by the new retired person. In other words, if the amount of the instalment comes to \$ 130 and the minimum retirement is \$ 530, the net outflow of funds is \$400 but at the time it is recorded on the public accounts, the outflow is entered as the total funds (\$530) and the payment for the \$130 as a result of the collection of the pertinent instalment.

subject to the average contributions for the last 10 years. The immediate consequence generated by this modification was not significant as merely led to an increase in the benefits of 248,000 persons, given that the remaining 563,182 persons who had retired since 1994 have benefited from increases above the change in the calculation of the PAP arising from the increase in minimum retirement.

The final factor affecting system expenses will be the increases/reductions in the amounts of the benefits granted by the government. The increases will have to include the new retirements which the public sector will have to face caused by new pensioners, and the public components (Basic Universal Benefit and Complementary Benefit) of the individuals maintaining their contributions to the private pension sub-system. Factors counted as eliminations include the decreases which could occur in the population currently covered, also including pension rights. Here it is important to stress that a significant part of the population which paid in to the moratoria systems was processing its own retirement, receiving a pension, which in the event of eliminations in these persons, would imply that the derived costs would be reduced by the two causes, that is, the elimination in the retirement together with the elimination in the pension. This factor would thus affect expenses, reducing the total sum thereof.

Conclusions

To sum up, we can see that on the basis of the analysis made (as stated, a partial one given that we have not taken into account the effect of the voluntary changes between the pay-as-you-go and private pension systems which could arise until next December), it may be observed that during the first year of the reform there is surplus in the amounts collected by the ANSES, and although the funds would not suffice *per se* to cover the commitments taken, the shortfalls can be covered with the tax collection used for financing the national Social Security system.

Moratoria, reform and other estimated effects on the public accounts of the Social Security

Current Millon Argentine Pesos	2007	2008	2009	2010	2011	2012
Factors that increase incomes						
Special account added to ANSES's Public Pension System	3,700	755	845	938	1,041	1,135
Undecided that are now channelled into de Public Pension System	998	1,067	887	891	956	756
Incomes from people registered into de Private Pension System that had accumulated less tha	4,900	1,314	1,325	1,324	1,322	1,297
Incomes derivated from the Easy Payment Plan (Moratoria)	4,861	4,746	4,625	4,497	4,363	
Incomes from increases on population salaries (Estimated Inflation + Estimated Productivity)	5,520	4,961	5,483	5,406	6,011	5,924
Total extraordinary incomes	19,979	12,844	13,165	13,057	13,694	9,112
Factors that increase expenses						
Easy Payment plan (Moratoria)	10,325	10,872	10,595	10,302	9,994	9,662
Increase in Pensions payments (converging to population salaries)	2,907	5,057	5,275	5,416	6,011	5,459
Increase at PAP as a consequence of 26.222 Act (from 0.85% to 1.5%)	0.2					
Net increase un payments as a consequence of number of retirements		-352	-238	-266	-304	-566
Total extraordinary expenses	13,232	15,578	15,631	15,451	15,702	14,556
Result	6,746	-2,734	-2,466	-2,394	-2,007	-5,444
Result as GDP percent	0.9%	-0.3%	-0.2%	-0.2%	-0.1%	-0.3%