Pensions Highlights

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Pensions Reforms

The lesson from pension reforms in America and perspectives

It is now nearly thirty years since major pension reforms were introduced in Latin America. They were aimed at improving pension coverage and giving sustainability to pension schemes, to which end most countries made structural reforms, introducing defined contribution plans to individual accounts, or parametric reforms, making adjustments in earnings and/or expenditures. At the same time, some countries made a mixed formula involving both approaches. In most cases the results were positive in terms of the fiscal sustainability but mixed with regard to coverage, equity, and labour and capital markets. These are new challenges for pension systems which now need to be addressed. This explains, for example, why Chile is, 26 years after reforming its public pension system, now implementing a "reform of the reform", reassessing its system to make it more equitable and efficient.

Under this background the Americas Center, the International Center for Pension Research and the Pension Research Council of Pennsylvania University's Wharton School got together to produce a book entitled "Lessons from Pension Reforms in the Americas", which looks at what can be learnt from the pension reform process in Latin America given that the range of reforms introduced there made it the world's pension laboratory. The book also looks at the remaining problems in terms of efficiency, equity and funding, three parameters that are measured separately for each type of reform introduced.

"Lessons from Pension Reforms in the Americas" sets out its arguments in two sections. The first one looks at pension design, issues of gender, coverage, default options, policy recommendations of the World Bank and the demographic trends as analysed by the Nobel prize-winner Robert W. Fogel. The second section surveys the different experiments undertaken in various countries in Latin America, plus United States and Canada. The chapter that looks at pension status in Chile, based on the information provided by the Social Protection Survey, contains key lessons to be learnt from the reforms introduced.

Of the numerous lessons drawn in the book, three are particularly noteworthy: 1) pension reforms need to be complemented by second-generation measures to the retirement systems and new policies that usually affect other parts of the economy, such as fiscal policy, health policy, the labour market and the financial market; 2) pension reform should be seen as an ongoing process by means of which pension schemes can adapt to the continuous changes in economic and labour conditions; and 3) reforming pension systems inevitably involves political risk, but this is something that governments must be prepared to face in maintaining and strengthening the systems they have adopted.

The book is thus a must read for everyone concerned with pension reform. It covers not only mainstream opinion but new insights into such matters as: a) what government policies are needed to fund pension arrangements in the light of recent progress in technology and life expectancy; b) how to obtain equitable treatment for both genders in systems originally designed for male workers but now confronted with the demographic fact that most of the beneficiaries will be women; c) pension-scheme culture and the financial education needed to manage systems, particularly in the area of individual decision making; and d) the effect of default options on designing systems, contributions, coverage and, in particular, how people can save in anticipation of retirement in the countries where a system of multiple funds was adopted.