# Challenges for Pensions Systems in Latin America and the Caribbean

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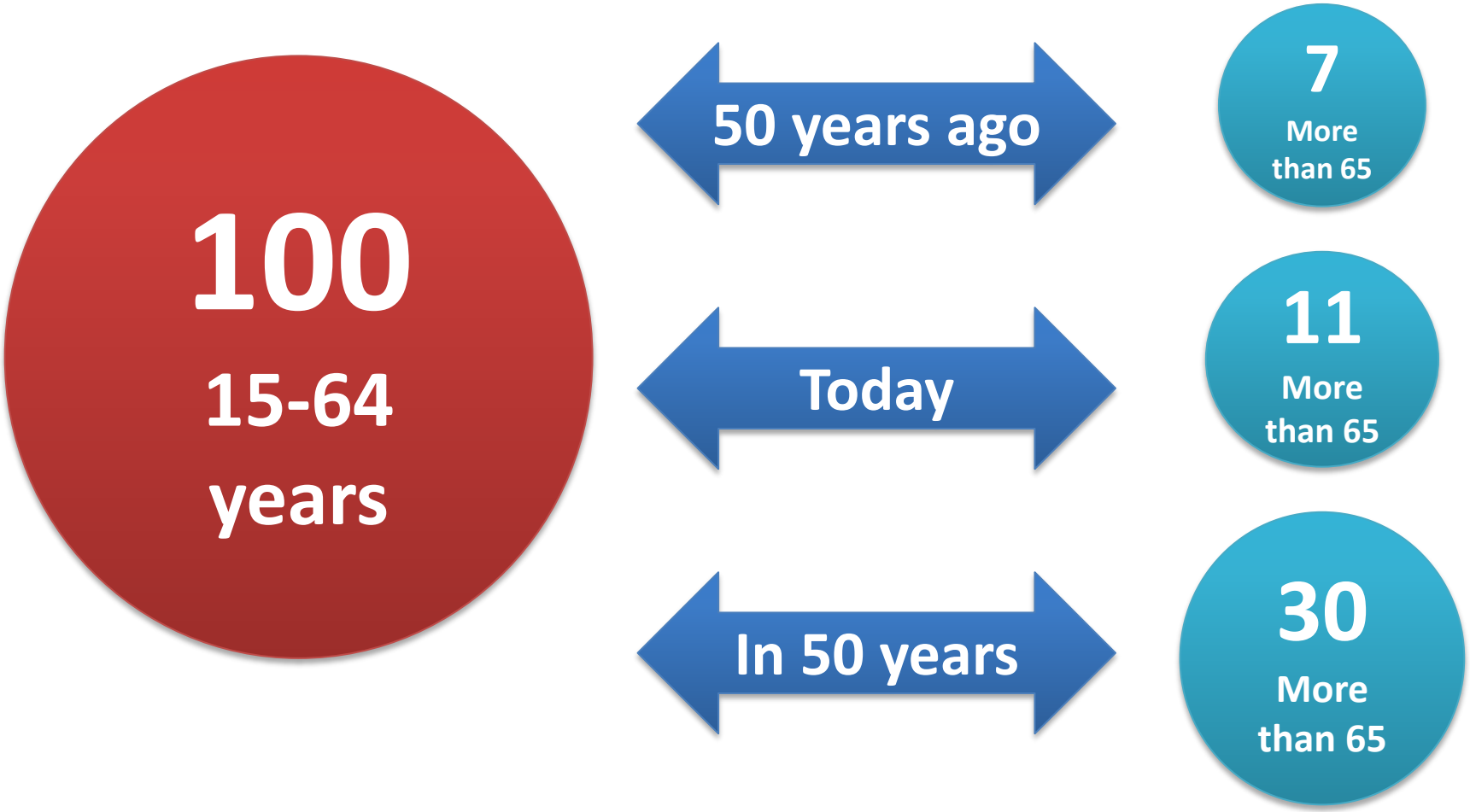
# Agenda

- Background
- Challenges for Latin America and the Caribbean
- Structure of Pension Systems in Latin American and the Caribean and How is the World Evolving
- Final Remarks

# Background

- **Life expectancy increase** is a reality in the world today
- The design and implementation of policies in this area require of **technical support and a long term view** of its impact
- Incorporating mechanism for **evuating the performance** of reforms and doing early adjustments or improvements is critical
- The policies in this area might have impact on **labor and financial markets** of countries
- The region has **great room for growth**, which in turn would imply greater welfare for the entire population
- Latin America and the Caribbean are today still at the stage of the **demographic dividend** to be followed by a significant **aging step**, which should be seen as a risk and an opportunity

# Background

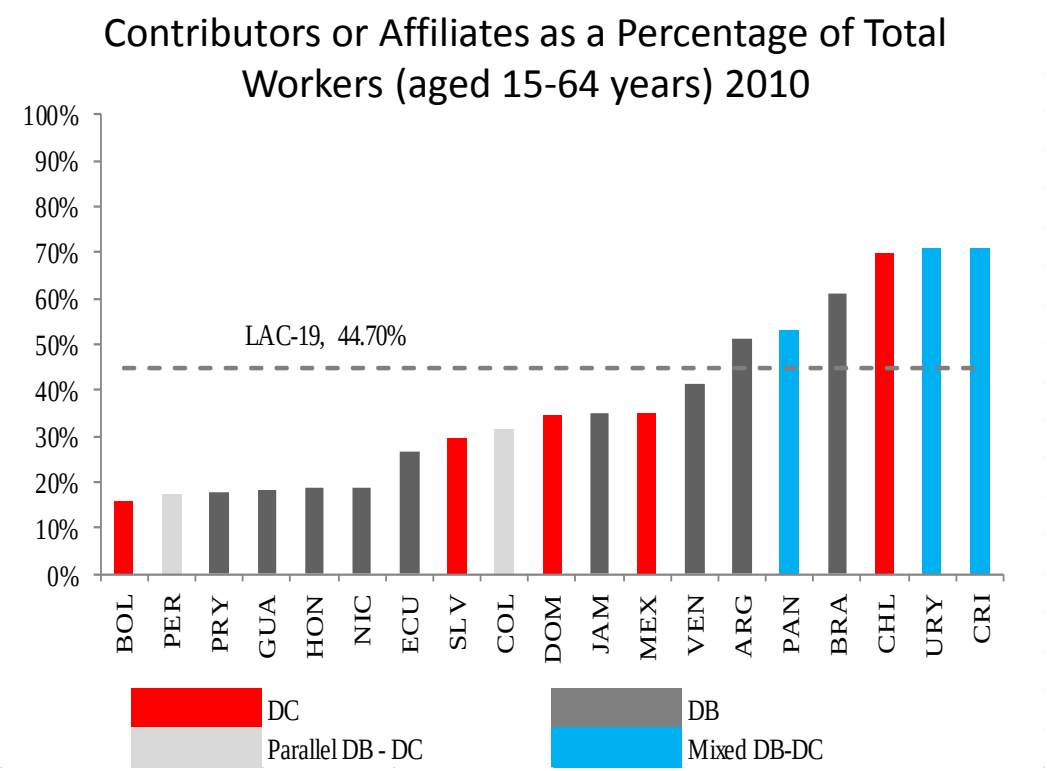



Taking care today of the future elderly is key in these countries to achieve sustainable development in the region

# Challenges for Latin American and the Caribbean

## Coverage

- **High level of informality** and / or self-employment imply a low percentage of the population is covered by contributory systems.
- Significant number of countries with **defined benefit** systems in which not meeting the requirements entails no pension
- In **defined contribution** systems low density also means not having pension or might be very low
- Increased presence of **non-contributory systems** can impact incentives to contribute



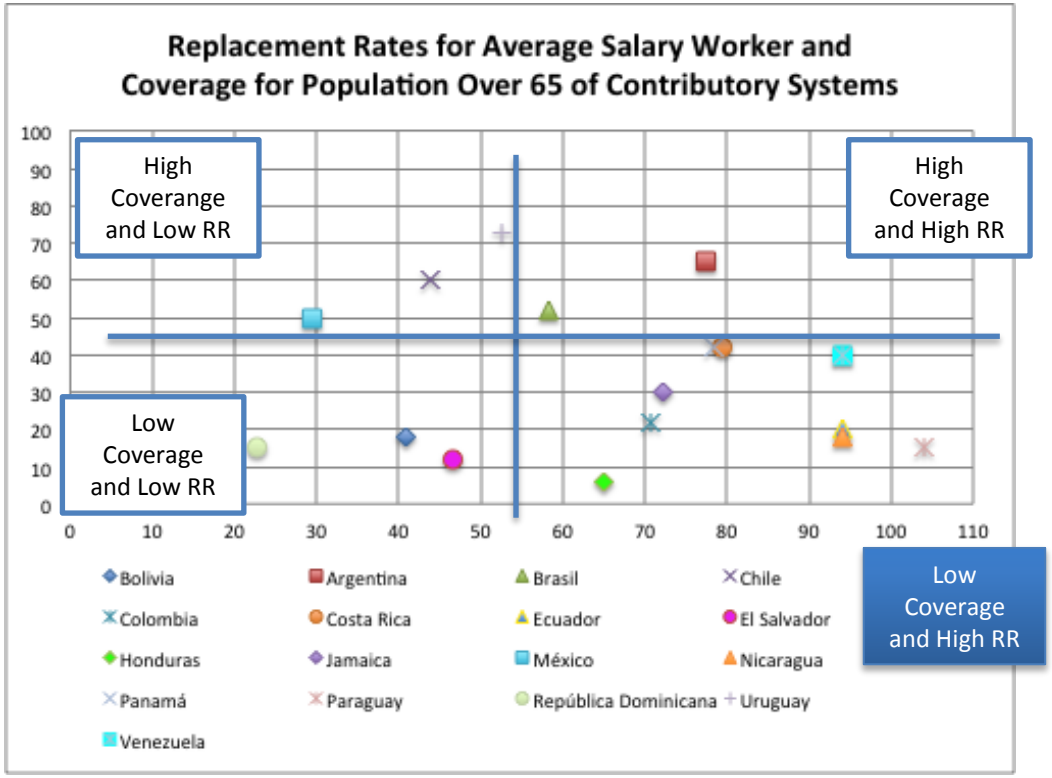

Soruce: Bosch et. al. 2013

Challenge: Increase coverage of contributory and non-contributory pensions sustainably

# Challenges for Latin American and the Caribbean

## Fairness

- In some systems there are **significant inequities**
- There are transfers from vulnerable people to less vulnerable
- This might **impact incentives** to contribute and inefficient spending
- **Non-contributory** pensions have taken on greater importance in the region
- **Adequate pensions** and high coverage also require to **preserve incentives** and **sustainability**




Source: Own calculations based on Bosch et. al. 2013

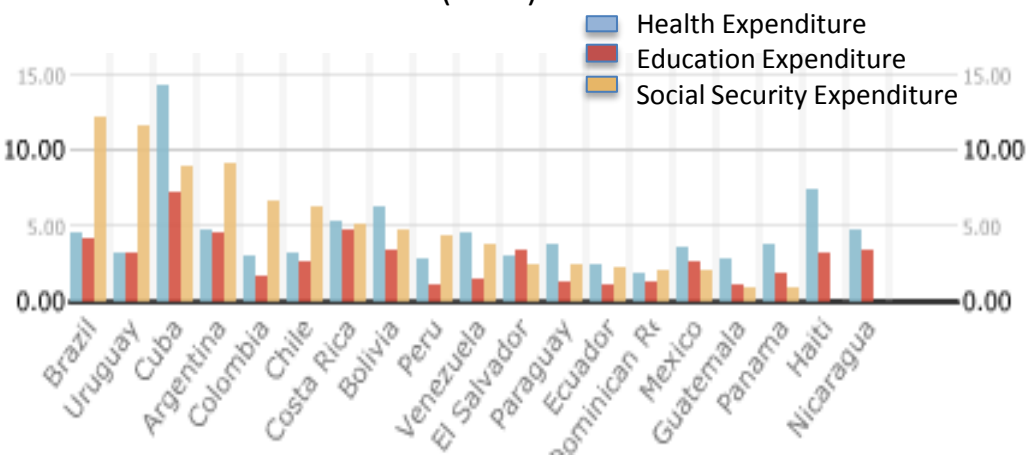
Challenge: Increase fairness of the systems by channeling subsidies to vulnerable people and strengthening incentives to contribute, safeguarding sustainability

# Challenges for Latin American and the Caribbean

## Sustainbility

- **Lack of information** and monitoring of pension systems actuarial balance
- Potential **sustainability** problem of **non-contributory** or **contributory** systems if there is an increase in coverage
- Important non-contributory pensions in countries like Bolivia, Brazil, Uruguay, Argentina, Mexico, Ecuador and Chile
- **Social Security competes** with other needs of countries in the Region

Public Expenditure in Social Security, Health and Education as Percentage of GDP
(2005)



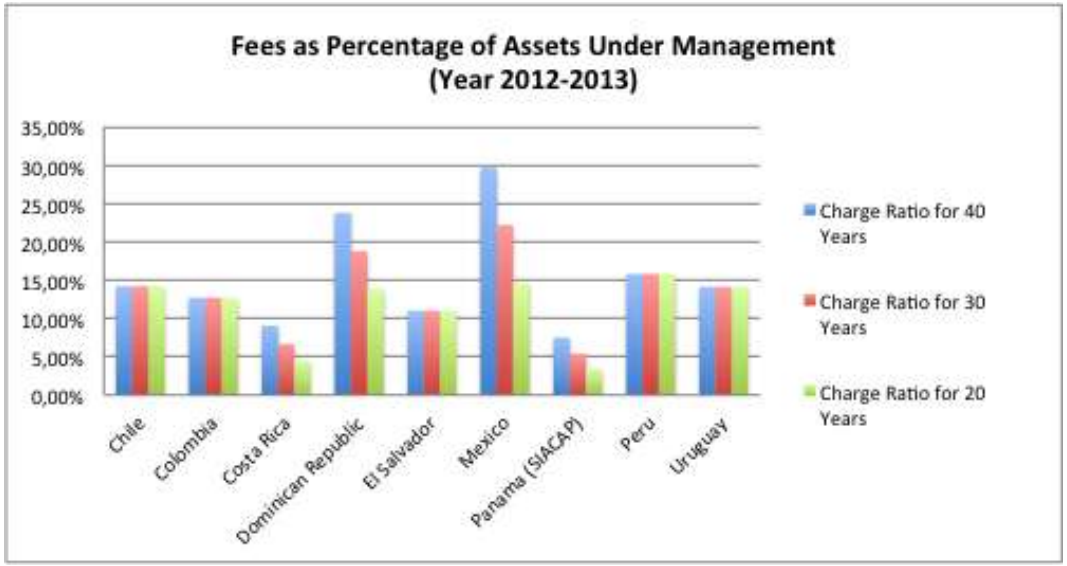

Source: CEPAL

Challenge: Building capacity for monitoring sustainability of benefits and design of policies consistent with the actuarial balance of systems and aging population.

# Challenges for Latin American and the Caribbean

## Efficiency

- Operation of the system with room to gain **operational efficiency**
- Low diversification of **investments**, low returns and governance issues
- Under development of local **capital markets** limiting investment opportunities
- **High administration costs** in some cases which might impact future pensions



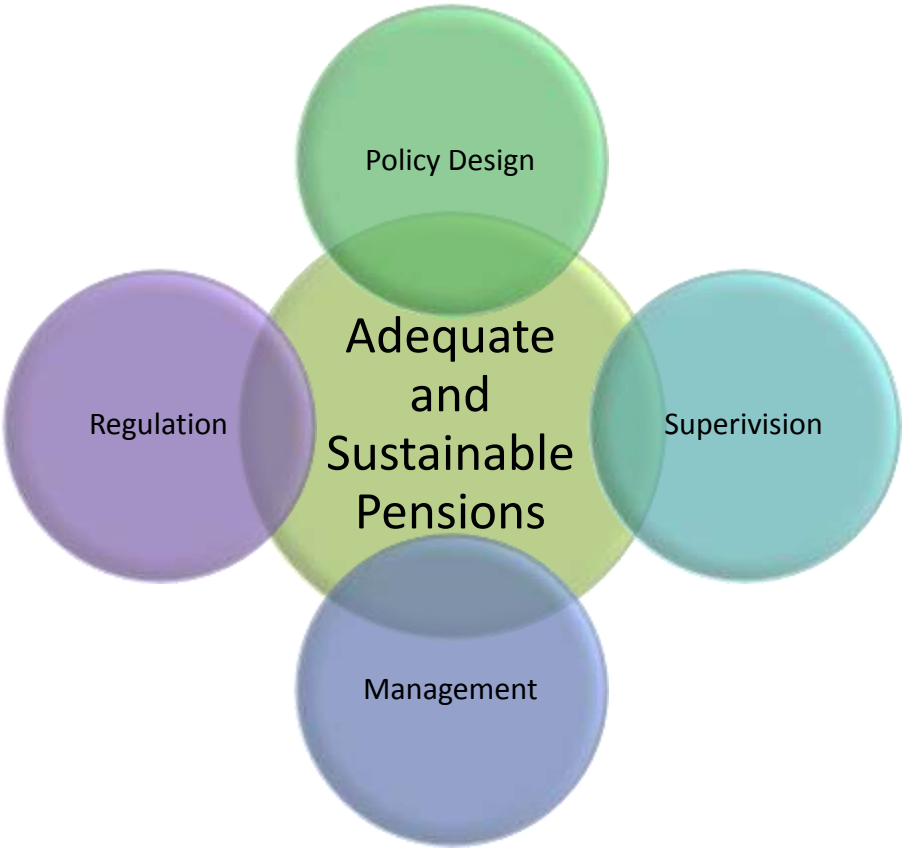

Source: E. Robles, IOPS Conference, Namibia, 2014

Challenge: Increase operational efficiency of the systems and effectiveness of investment of pension funds might in turn contribute to countries development

# Challenges for Latin American and the Caribbean

## Institutions

- In some countries there is dispersion of functions and lack of **comprehensive view**
- Potential **governance fragility** of institutions
- In some cases weakness or lack of **technical supervision**
- Not clearly established roles or **overlapping roles** of different institutions
- Weaknesses associated with **legal and statutory framework**




Challenge: Institutional Strengthening for proper design and implementation of policies, supervision and administration of pension systems

# Structure of Pension Systems in Latin America and the Caribbean

| | | Financing | |
|---|---|---|---|
| | | Funded | Pay as you Go |
| Benefit Calculation | Defined Contribution | a) Contributory: 10 countries of the Region | |
| | Defined Benefit | | b) Contributory: 21 Countries of the Region<br>c) Non-contributory: 22 Countries of the Region |

5 Have Both

(a) BOLIVIA, CHILE, COLOMBIA,COSTA RICA,EL SALVADOR, MEXICO, PANAMA, PERU, REPUBLICA DOMINICANA, URUGUAY

(b) ARGENTINA, BAHAMAS, BARBADOS, BELIZE, BRASIL, COLOMBIA, COSTA RICA, ECUADOR, GUATEMALA, GUYANA, HAITI, HONDURAS, JAMAICA, NICARAGUA, PANAMA, PERU, REPUBLICA DOMINICANA, SURINAME, TRINIDAD Y TOBAGO, URUGUAY, VENEZUELA

(c) ARGENTINA, BAHAMAS, BARBADOS , BELIZE, BOLIVIA, BRASIL, CHILE, COLOMBIA, COSTA RICA, ECUADOR, GUATEMALA, GUYANA, HAITI, HONDURAS, JAMAICA, MEXICO, PERU, REPUBLICA DOMINICANA, SURINAME, TRINIDAD Y TOBAGO, URUGUAY, VENEZUELA

# ¿How is the World Evolving?

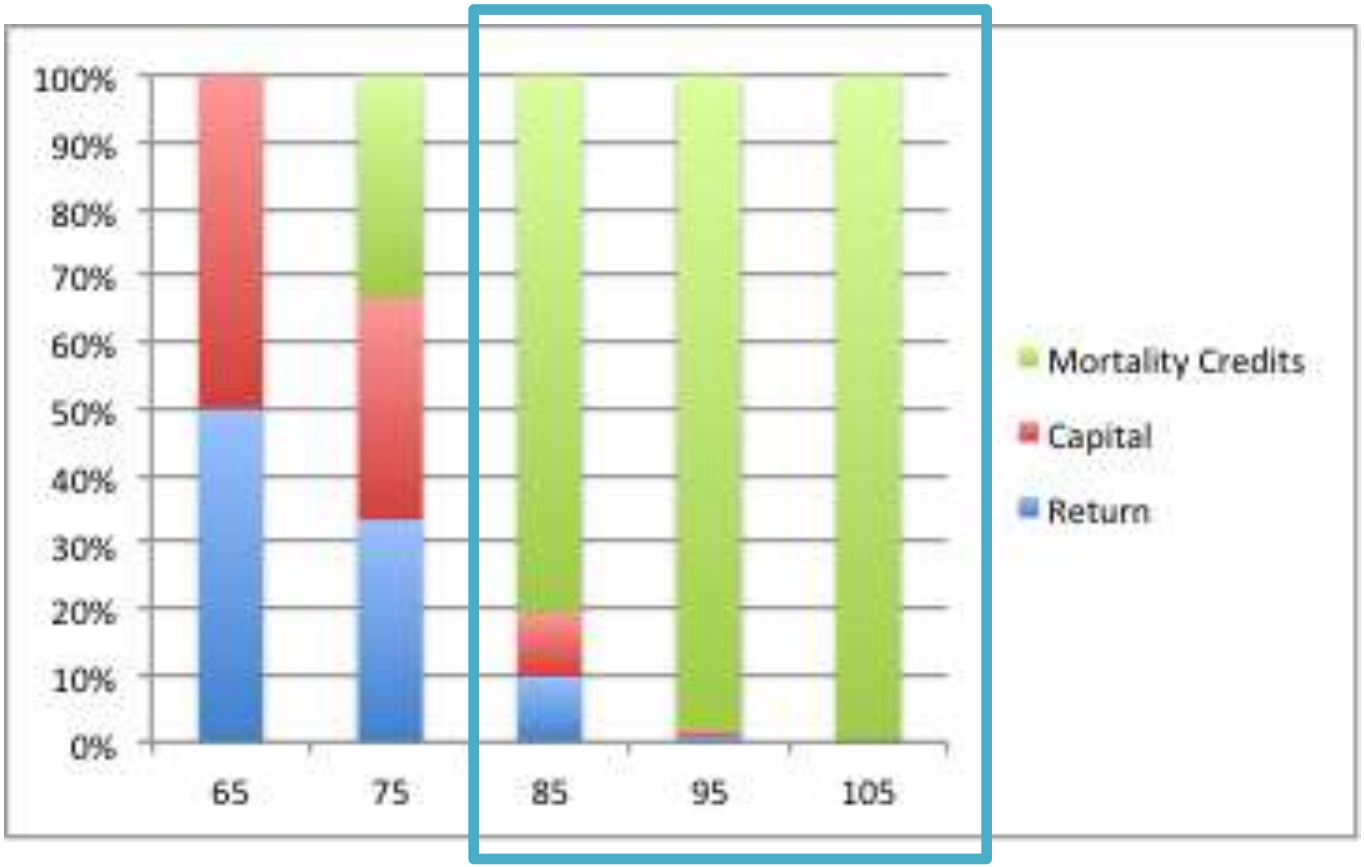
| | | Financing | |
|---|---|---|---|
| | | Funded | Pay as you Go |
| Benefit Calculation | Defined Contribution | | |
| | Defined Benefit | | |

**¿How much should be saving and how much insurance? ¿How much solidarity?**

**GOAL:**
**Adequate and Sustainable Pensions**

# Role for Insurance: Efficiency Gain by Sharing Mortality Risk

Decomposition of an Annuity Payment Starting at 65 Years




| 1000 Alive | 819 Alive | 474 Alive | 100 Alive | 3 Alive |
|---|---|---|---|---|

# Final Remarks

- Latin America is today still in the stage of demographic dividend, representing opportunities and challenges in the region in preparation for the aged step
- Efficiency, equity, coverage and sustainability should be the focus of any future pension reform in the region together with strengthening institutions
- The region requires:
  - Building skills for the various bodies involved in the generation of policies
  - Studies that would relay on appropriate information for the construction of specific proposals for each country
  - Public awareness of the need for sustainable policies and the cost of financing pensions in the long term

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