“Averting...” and the global paradigm shift in pension policy

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Evolution of pension policy I
Paradigm shift 1: Decline of the pay-as-you-go, defined benefit as dominant model and rise of DC
Averting and the decline of traditional social insurance pensions in favor of DC

- Traditional DB schemes
- Fully funded, DC schemes
- FF DC including CS and voluntary

And this does not include the special and massive case of China
Life cycle of a PAYGO scheme

Source: Averting
The main policy driver: sustainability

Source of fitted line: Averting
The main policy driver: sustainability

Reforms in older countries appear to be shifting the spending curve.

Source of fitted line: Averting
Paradigm shift 2:
Shift away from exclusive reliance on payroll tax/contribution financed pensions
The main policy driver: coverage

% of labor force contributing to pension scheme

Original Averting
New, expanded sample
Averting sample updated

Source of fitted line: Averting
The shift to general revenue financing of redistribution

-20 -15 -10 -5 0 5 10 15 20 25 30 35

# of countries


Traditional DB schemes

Fully funded, DC schemes

Social pensions
A second chance for social pensions

Size of circle refers to coverage of the elderly
A second chance for social pensions
Evolution of pension policy II
Concluding thoughts

• Averting has been, in many ways, the starting point for the international pension policy debate since the mid-1990s
• Averting provided a lens through which the historical shift away from the traditional SI model could be understood; it did not cause it the shift, but may have helped speed it up
• Averting recognized the role of a general revenue financed, redistributive element in the pension system but did anticipate the degree of expansion of social pensions
• Averting’s message of separating the redistributive and savings functions and using different instruments and financing sources to achieve them is more relevant now than ever as this tradeoff becomes clear as populations age
Thank you