

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

Robert Palacios

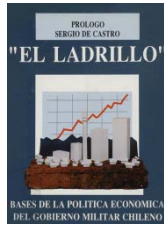
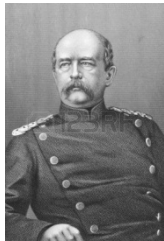
Pension Team Leader

Social Protection Department

World Bank

Contractual Savings Conference, Washington DC April 2, 2014

Evolution of pension policy I



1689

1889

1942

1973

1982

1994

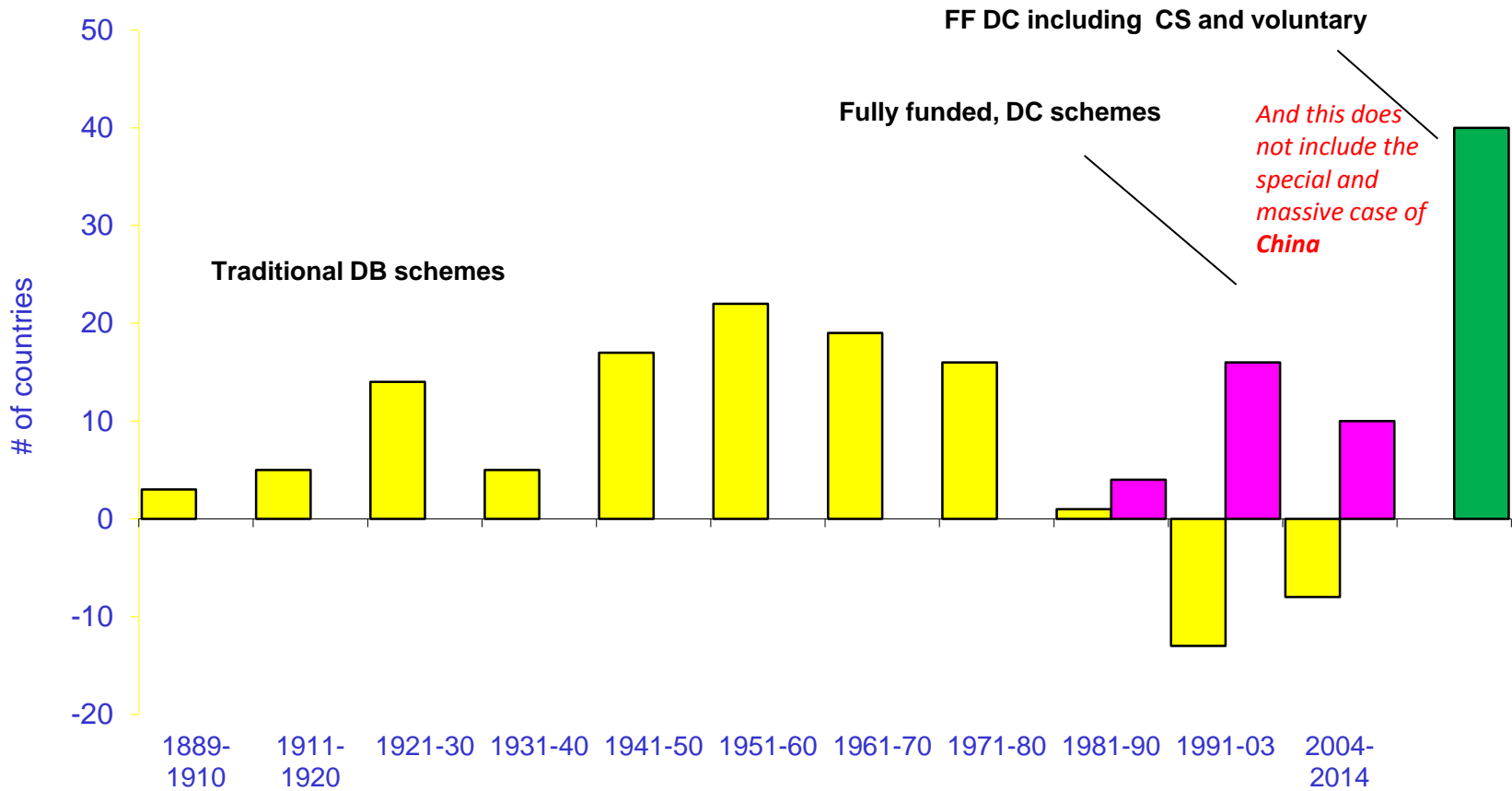
2005

2014

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

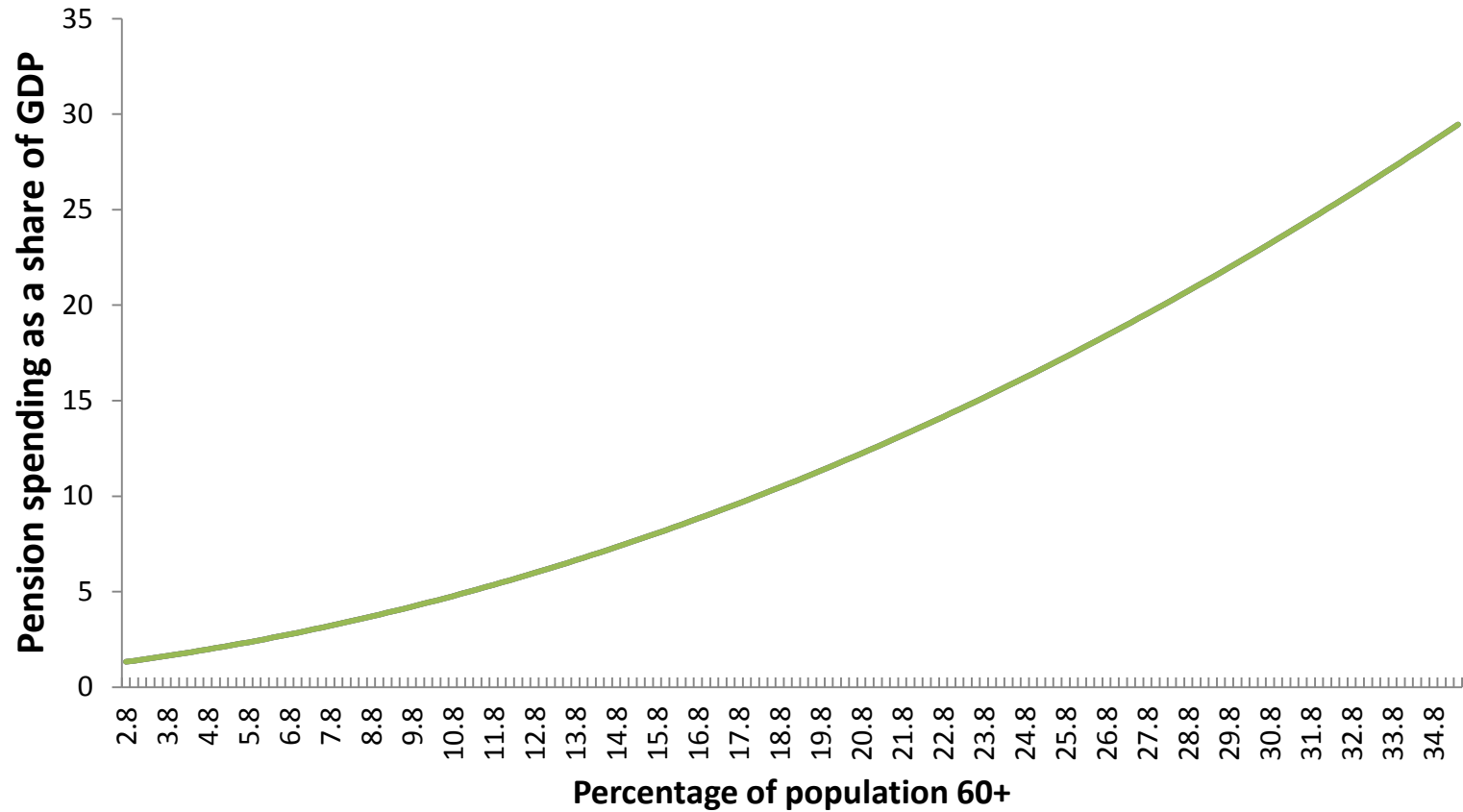


Life cycle of a PAYGO scheme



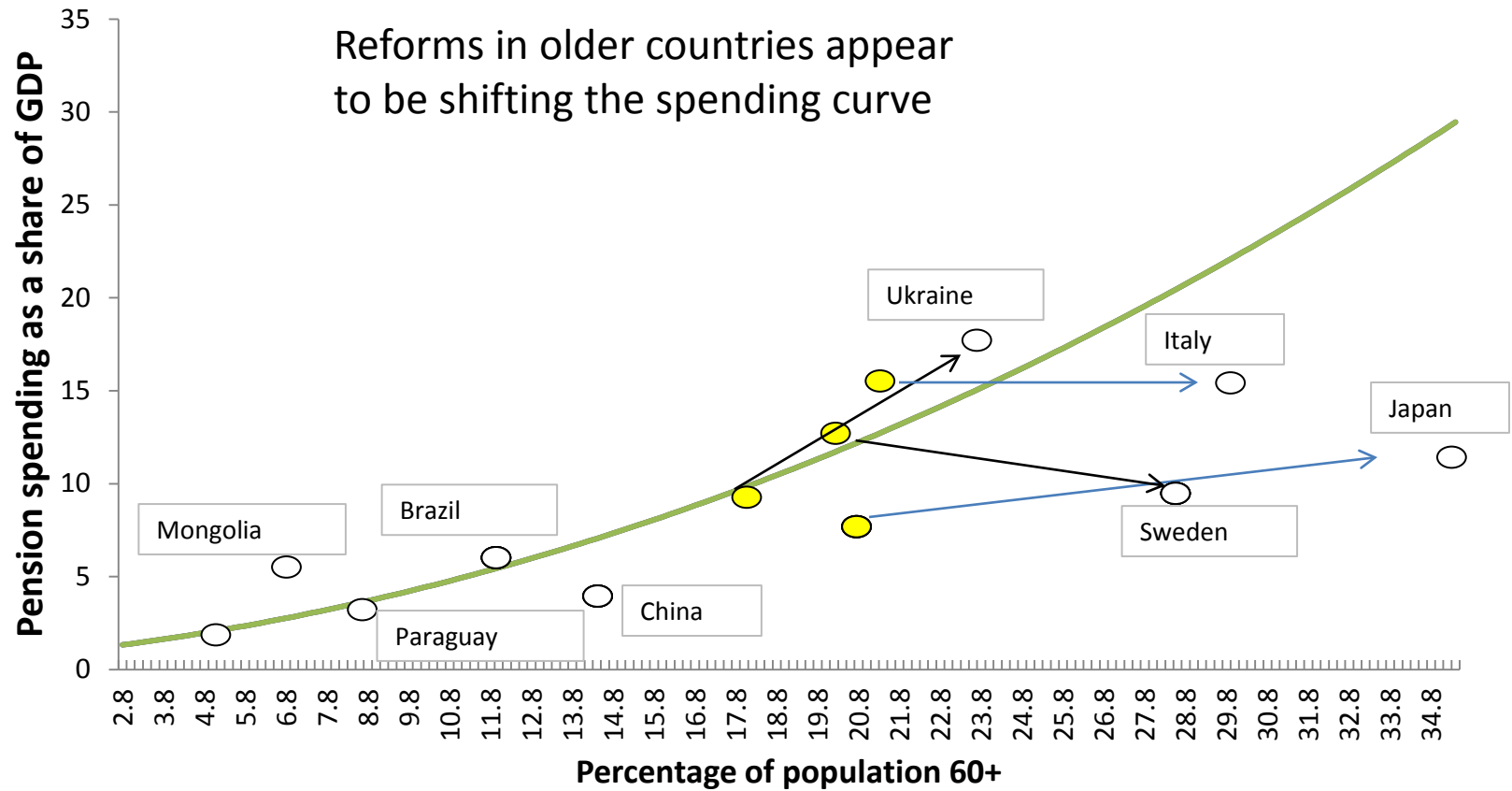
Source: Averting

The main policy driver: sustainability



Source of fitted line: Averting

The main policy driver: sustainability

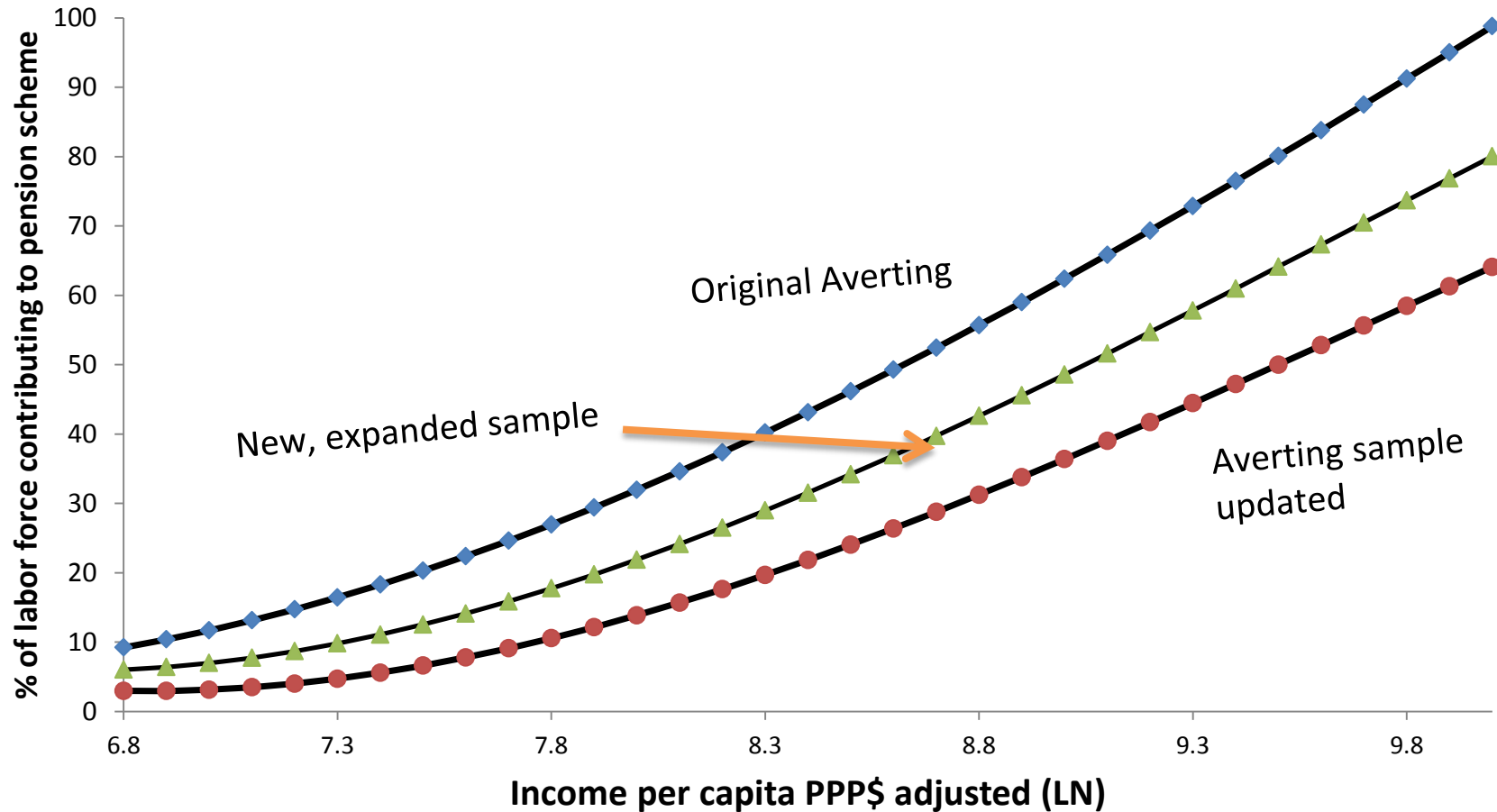


Source of fitted line: Averting

Paradigm shift 2:

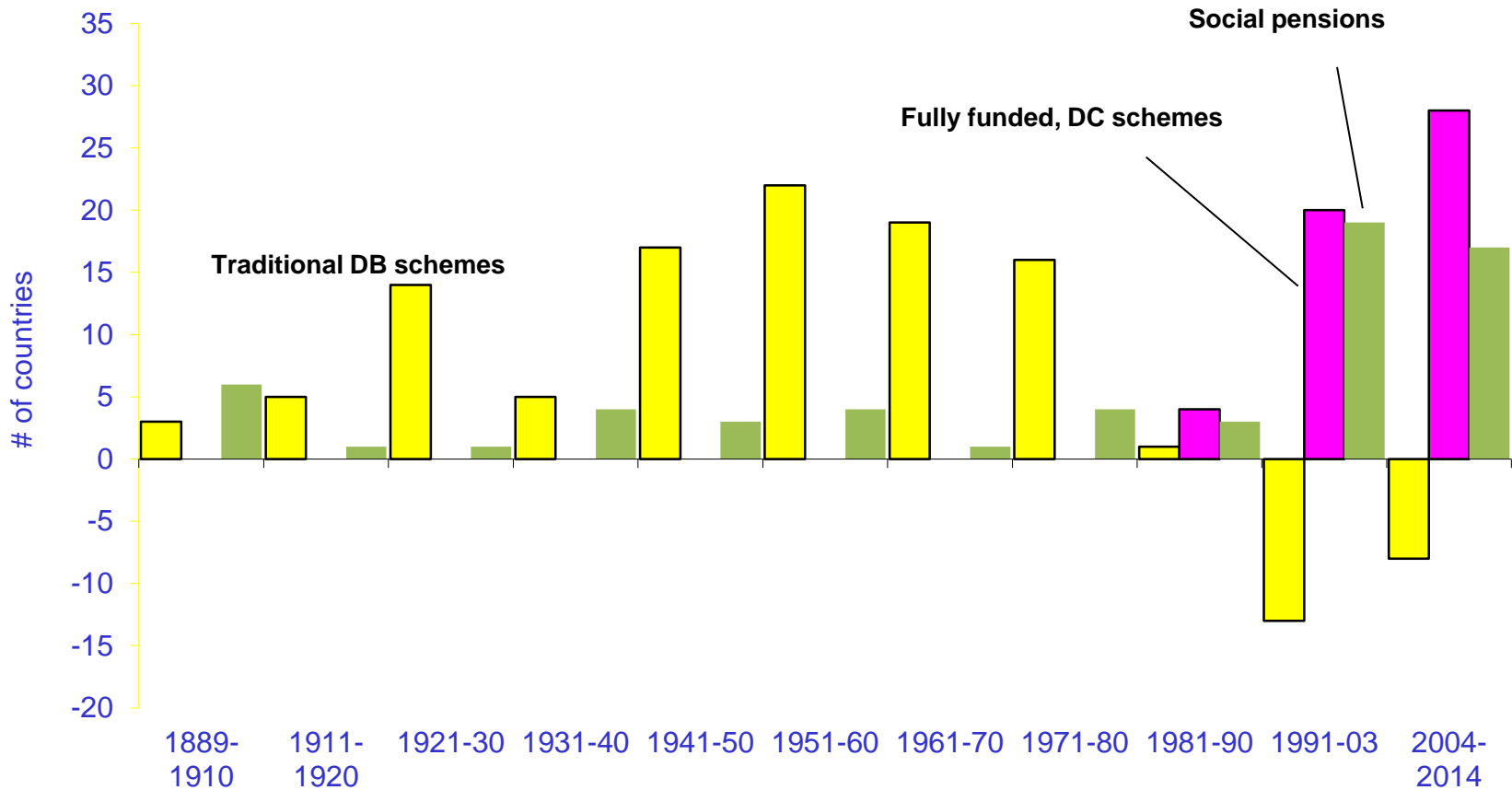
Shift away from exclusive reliance on payroll tax/contribution financed pensions

The main policy driver: coverage

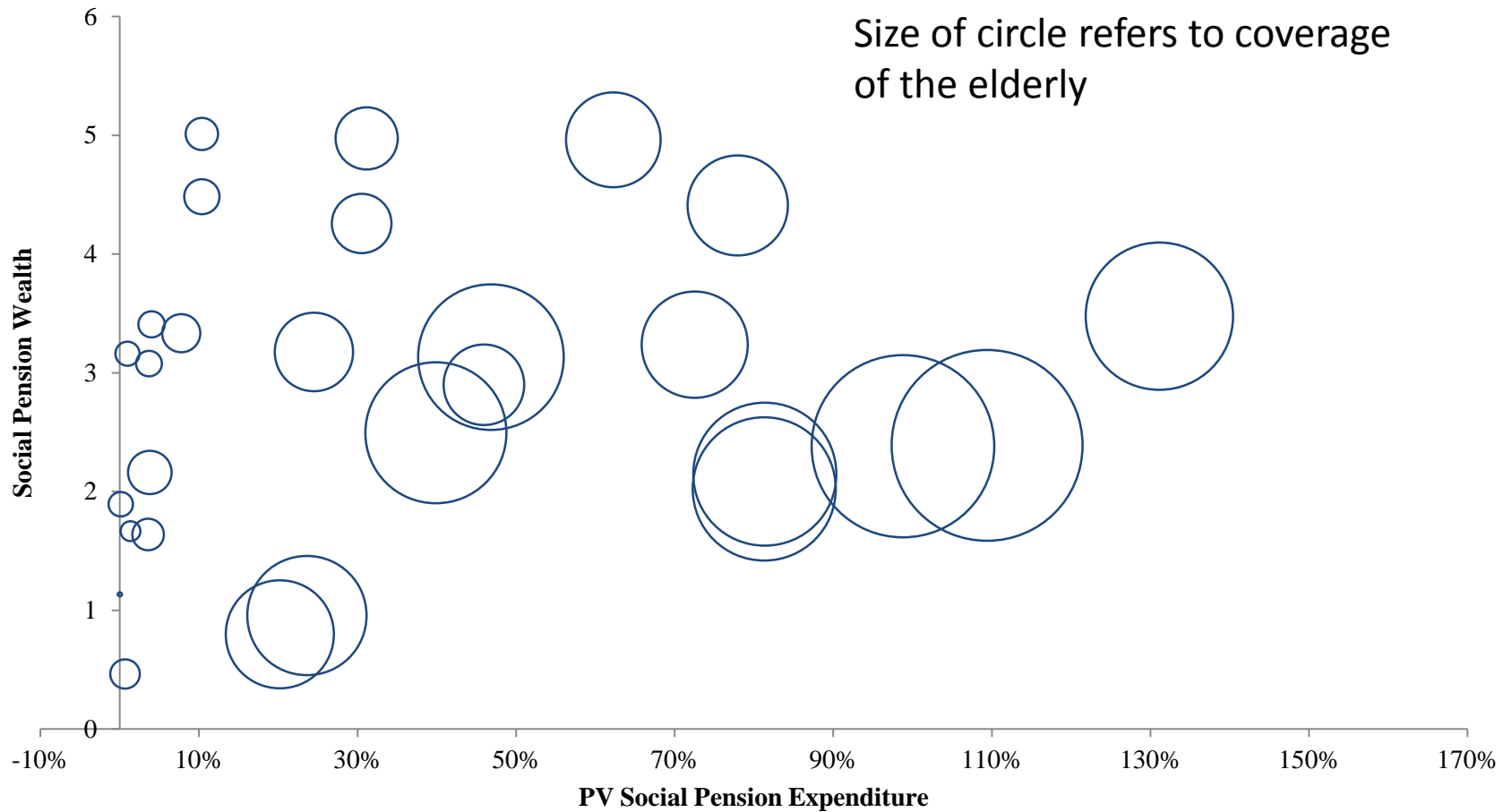


Source of fitted line: Averting

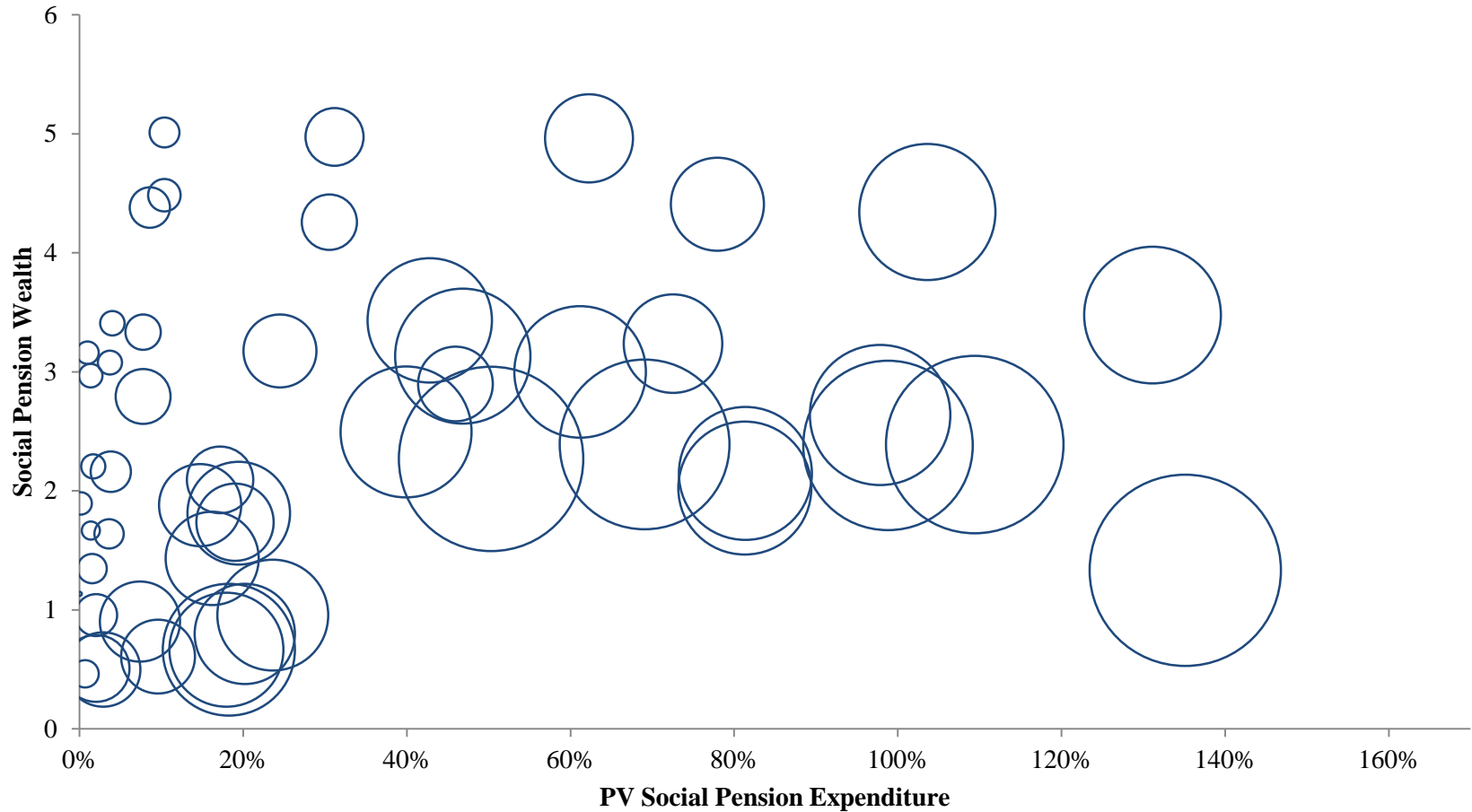
The shift to general revenue financing of redistribution



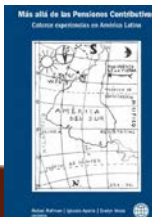
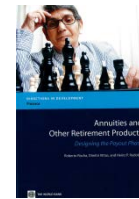
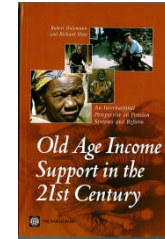
A second chance for social pensions



A second chance for social pensions



Evolution of pension policy II



1689

1889

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2014

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 not 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

