



# Better Pensions, Better Jobs

Towards Universal Coverage in Latin America and the Caribbean

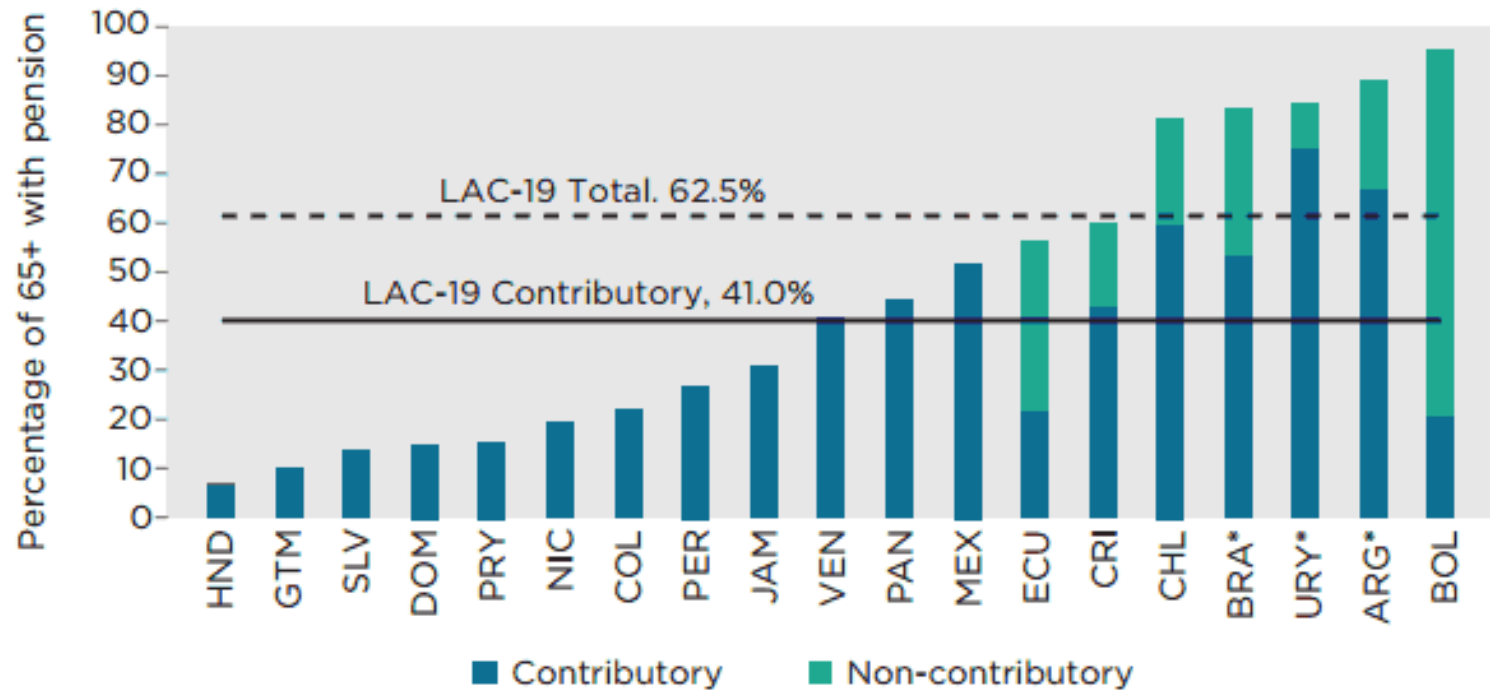
- 6th Global Pension & Savings Conference
- 2nd April 2014- Washington DC





# Low pension coverage: 4/10 Pop 65+ don't get a pension

## Pension Coverage in Latin America and the Caribbean, 2010



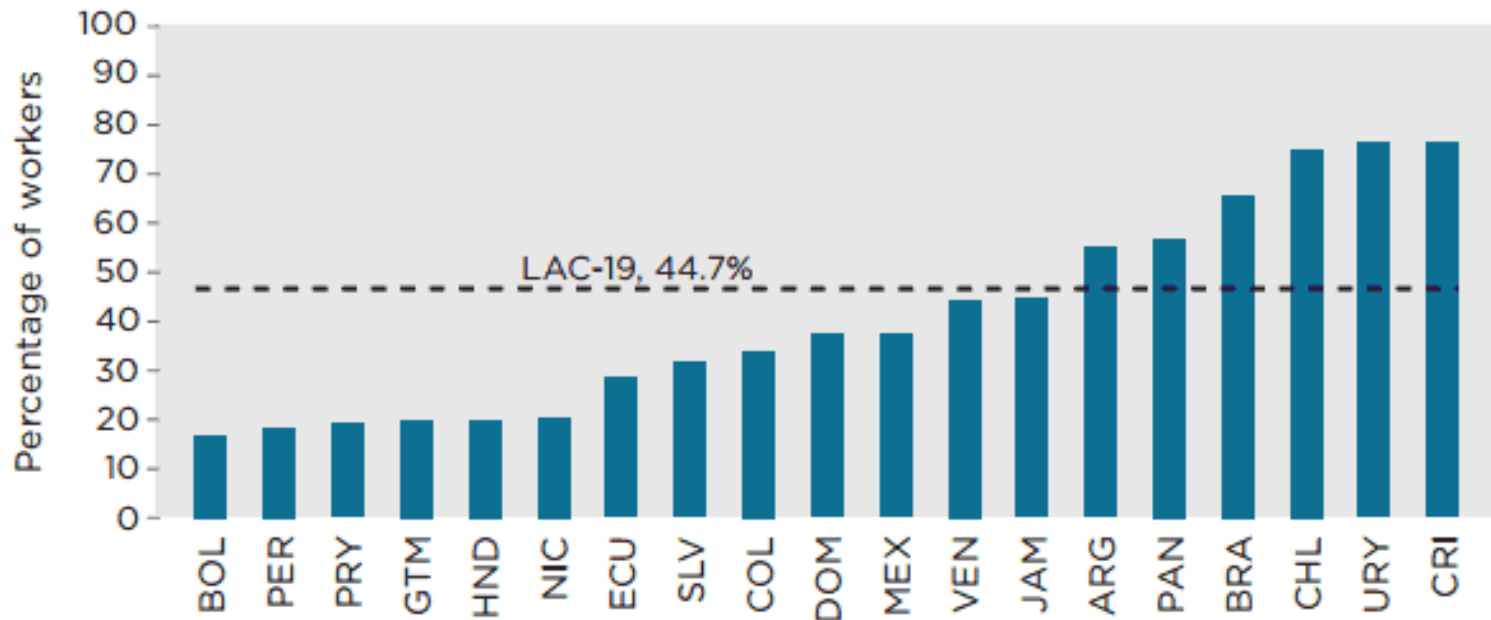
Source: Bosch, Melguizo, and Pagés (2013).



# The labor market at the epicenter of the challenge and the solution

Only 44,7 % of workers in LAC contribute to a pension system

**Pension savings: Percentage of contributors over total employment in Latin America and the Caribbean, 2010**

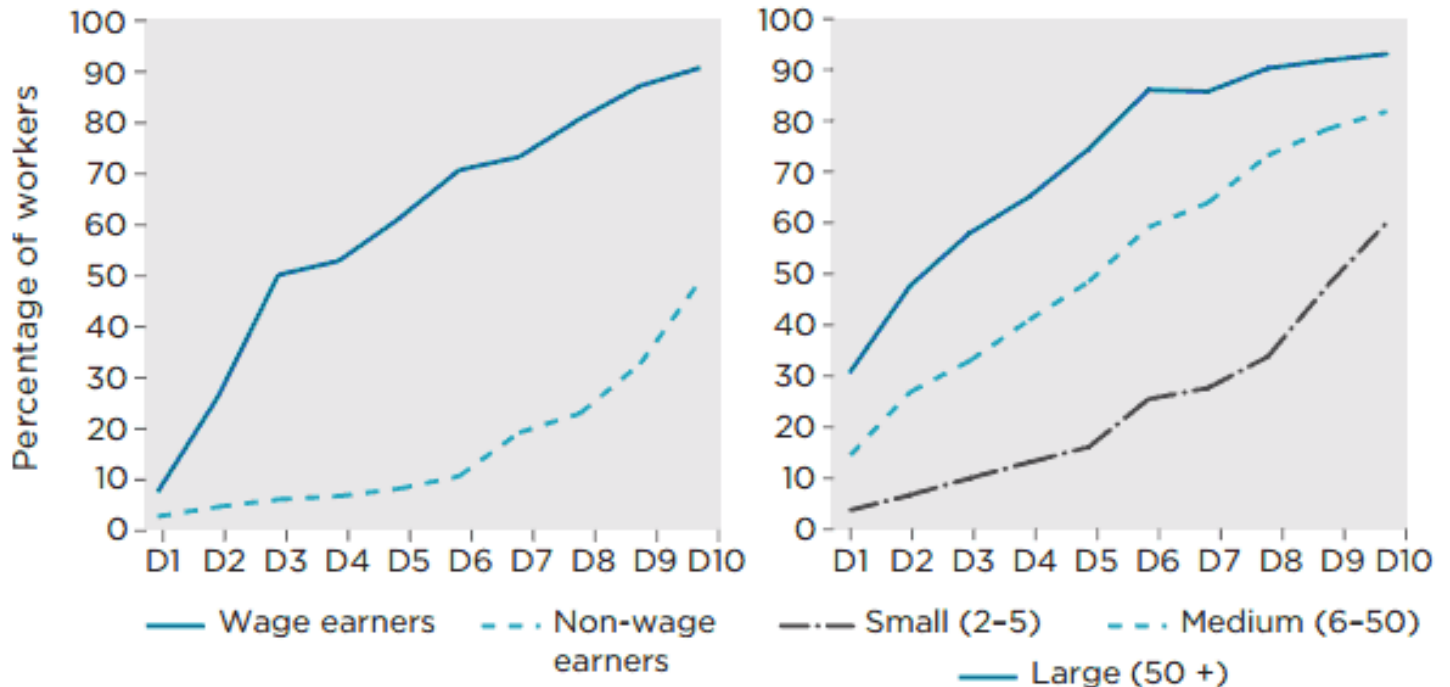


Source: Bosch, Melguizo, and Pagés (2013).



Pension savings are low for non-wage earners, workers in small firms, or low-income workers ...

### Pension savings: Contributors to the pension system in Latin America and the Caribbean by income decile, occupation and firm size, 2010



Source: Bosch, Melguizo, and Pagés (2013).



# Informality is not an incurable disease

It is the outcome of:

- **Designs:** Systems exclude (*de jure* or *de facto*) non-wage earners.
- **Incentives:** Provided by the state in labor markets.
- **Value:** Placed by workers and firms on social security.

All this can be changed with adequate policies.



# It's possible to eliminate poverty in old age and to increase formal employment

Better Pensions

Social/universal pension

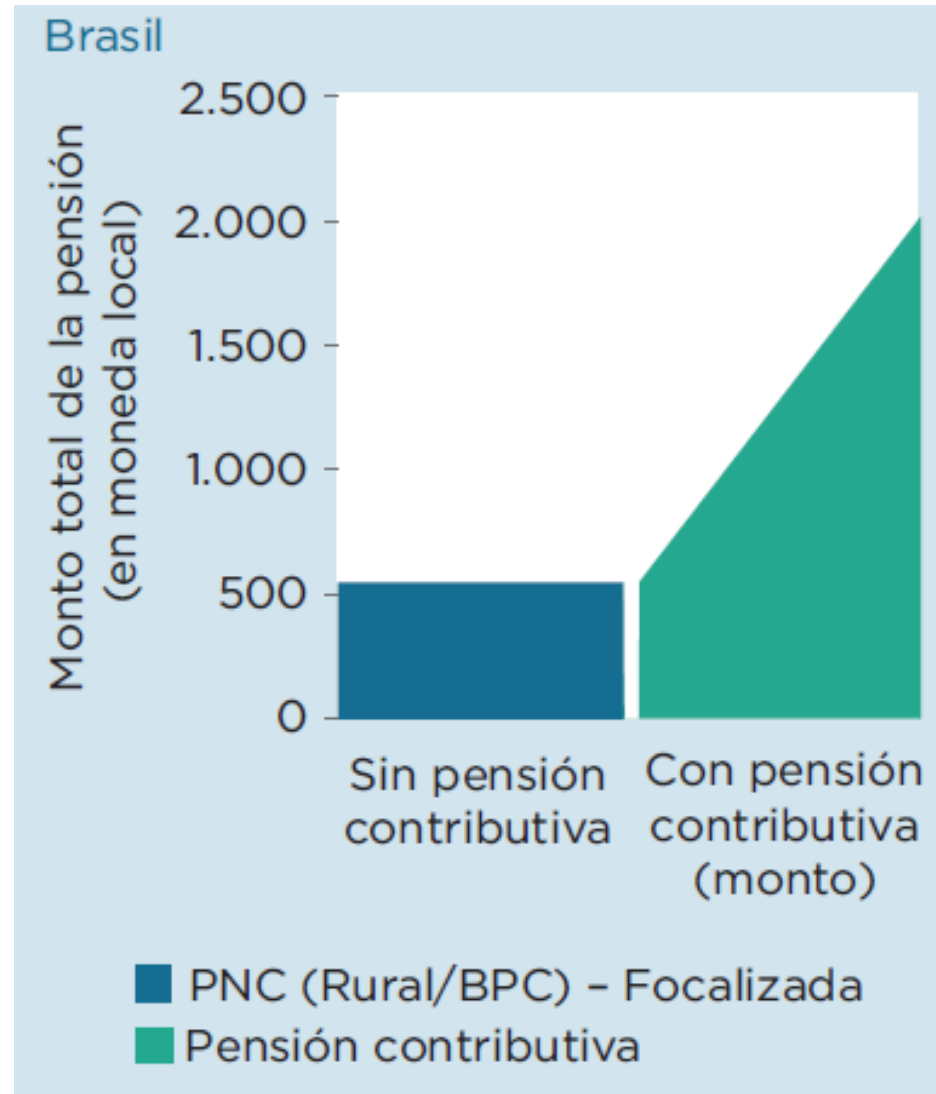
- Anti-poverty
- Sustainable
- Efficient

Better Jobs

Formal jobs subsidies

- Subsidizing SS contributions
- Innovating in channels
- Enforcement information and financial literacy

# Non-contributory pensions might be too generous

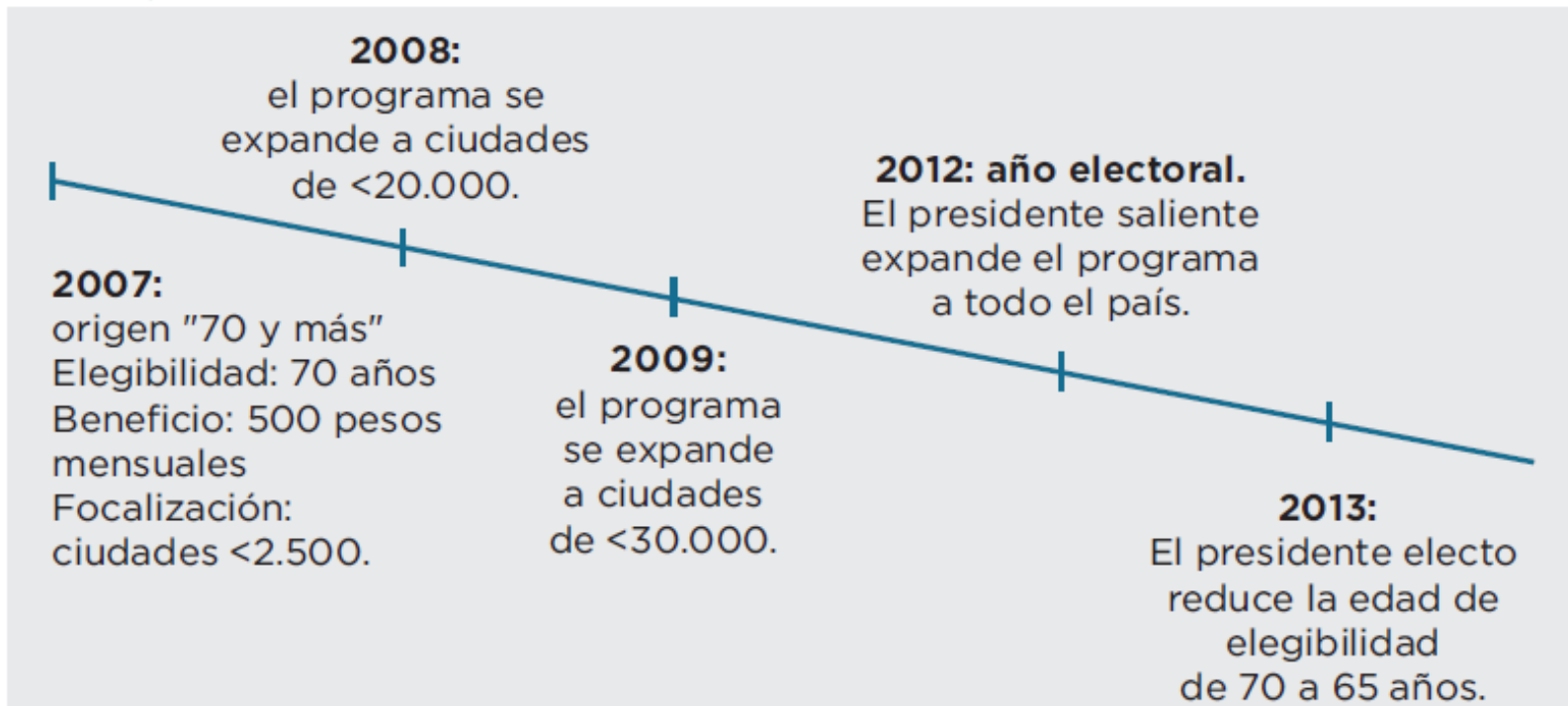




# Institutions are not well established yet

## La pendiente resbaladiza de las pensiones no contributivas: México (2007-13) y Ecuador (2012-13)

### México, 2007-12



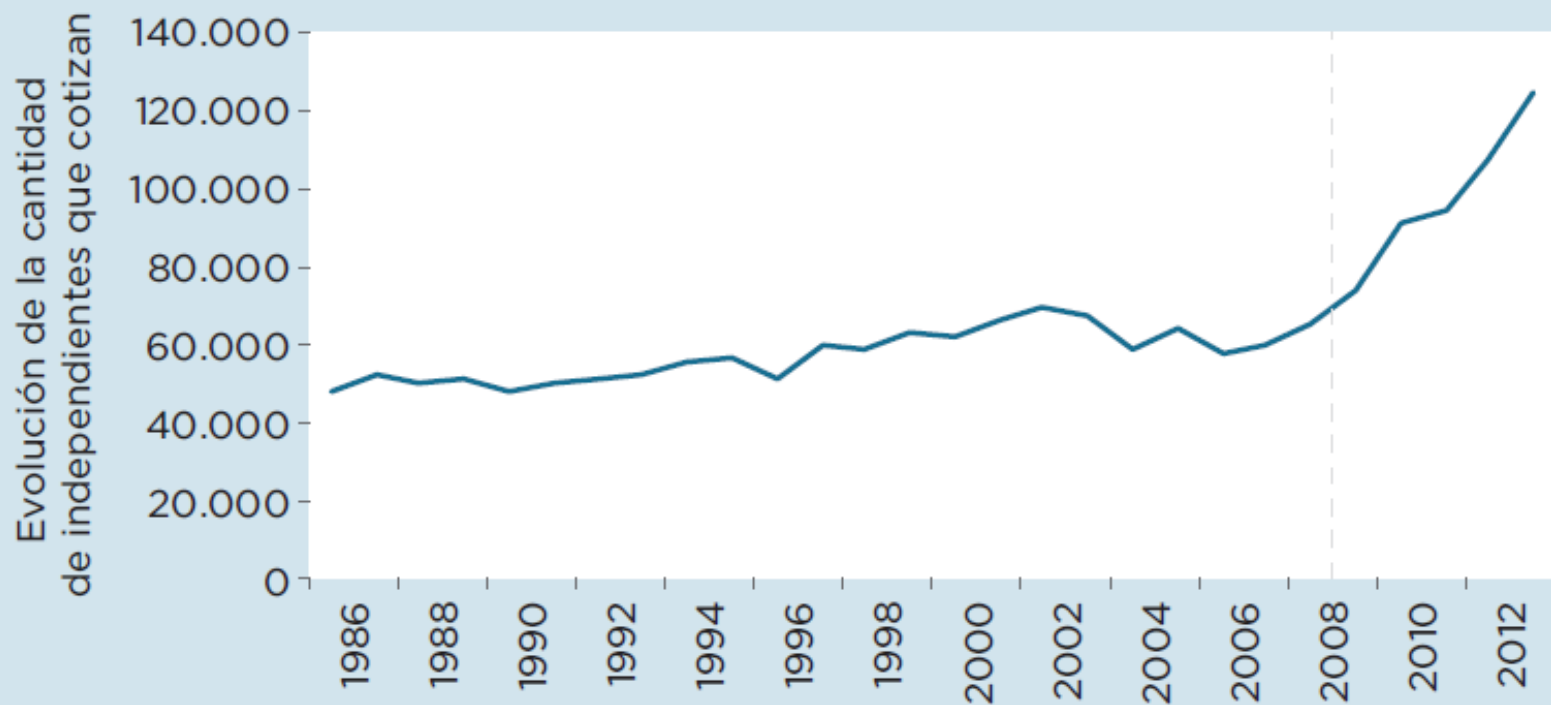




# Mandatory affiliation of self-employed in Chile

**Gráfico 4.3.1:**

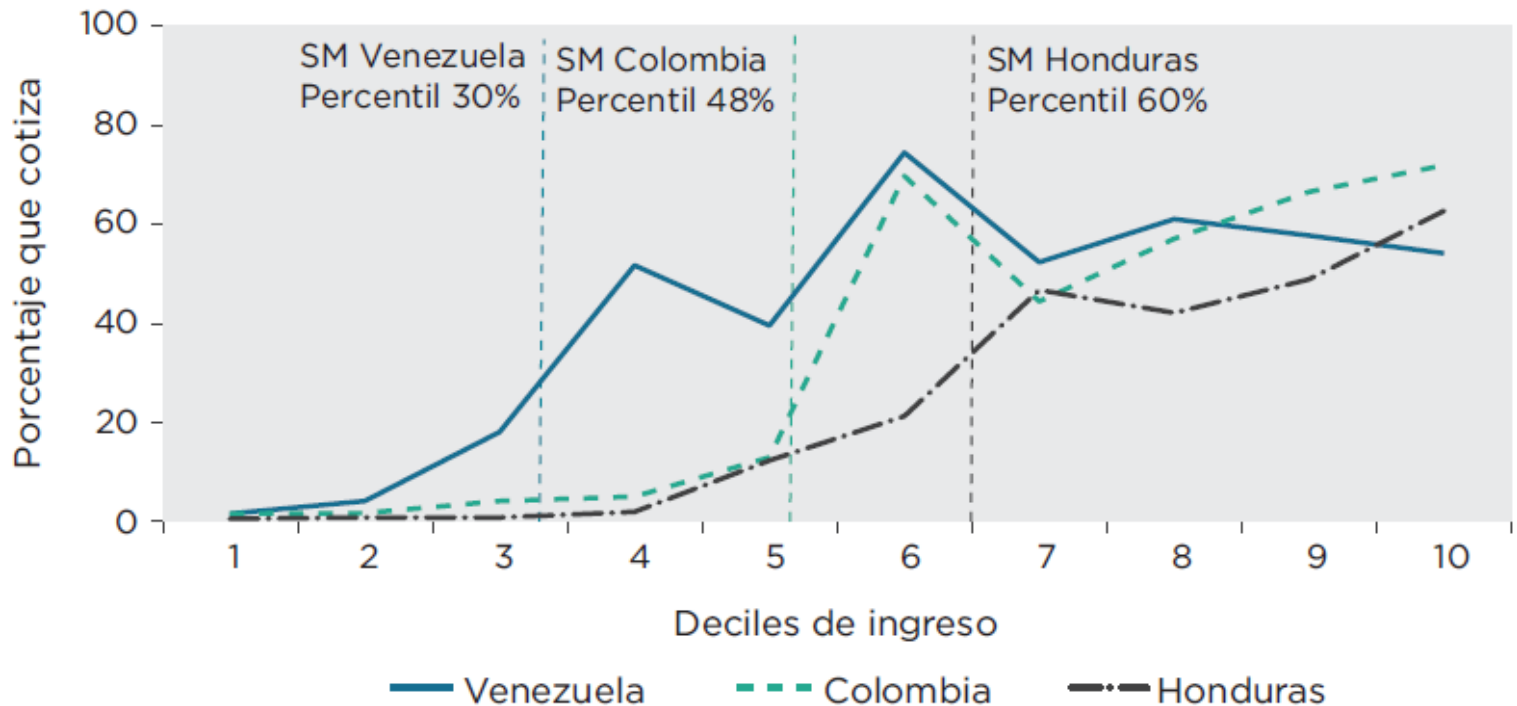
Evolución de la cantidad de trabajadores independientes que cotizan en Chile, 1986-2012





# Minimum wages

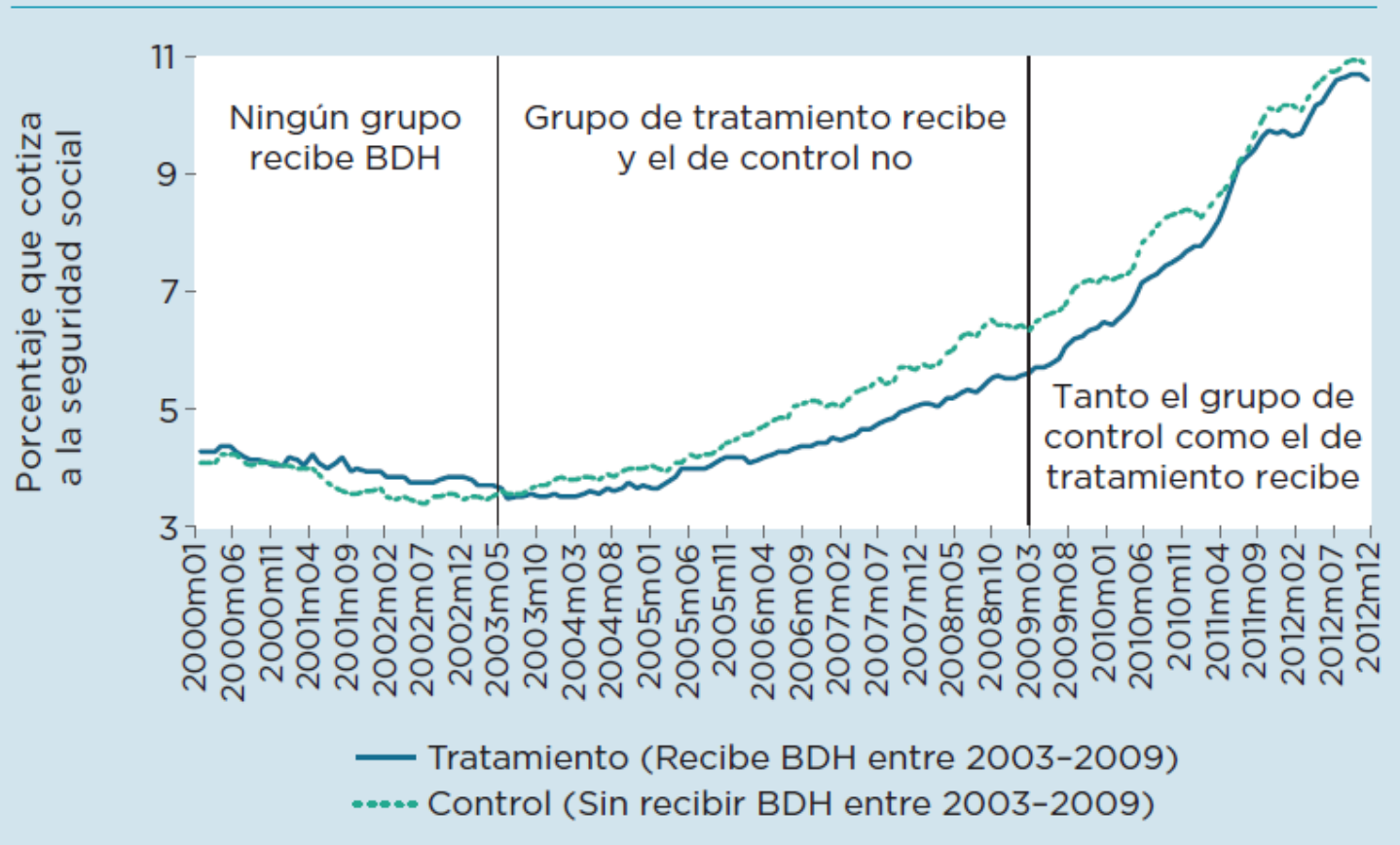
## Porcentaje de trabajadores cotizantes por decil de ingresos: Colombia, Honduras y Venezuela





# Social Programs

Porcentaje de mujeres cotizantes a la seguridad social en Ecuador, de entre 30 y 45 años, grupo de tratamiento y grupo de control del Bono de Desarrollo Humano, 2000-11





# The time is now: financial and political economy challenges can be overcome

- ❑ **Demography:** The region is still young but the window of opportunity will rapidly close.
- ❑ **Improvement in formal employment and productivity:** Pension reform is central to achieve both.
- ❑ **Funding:** Pension reform requires an increase in resources allocated to these policies, preferably from alternative sources (VAT, commodities).
- ❑ **Political economy:** Formal employment is a central aspiration of the middle classes.





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Additional material

- 6th Global Pension & Savings Conference
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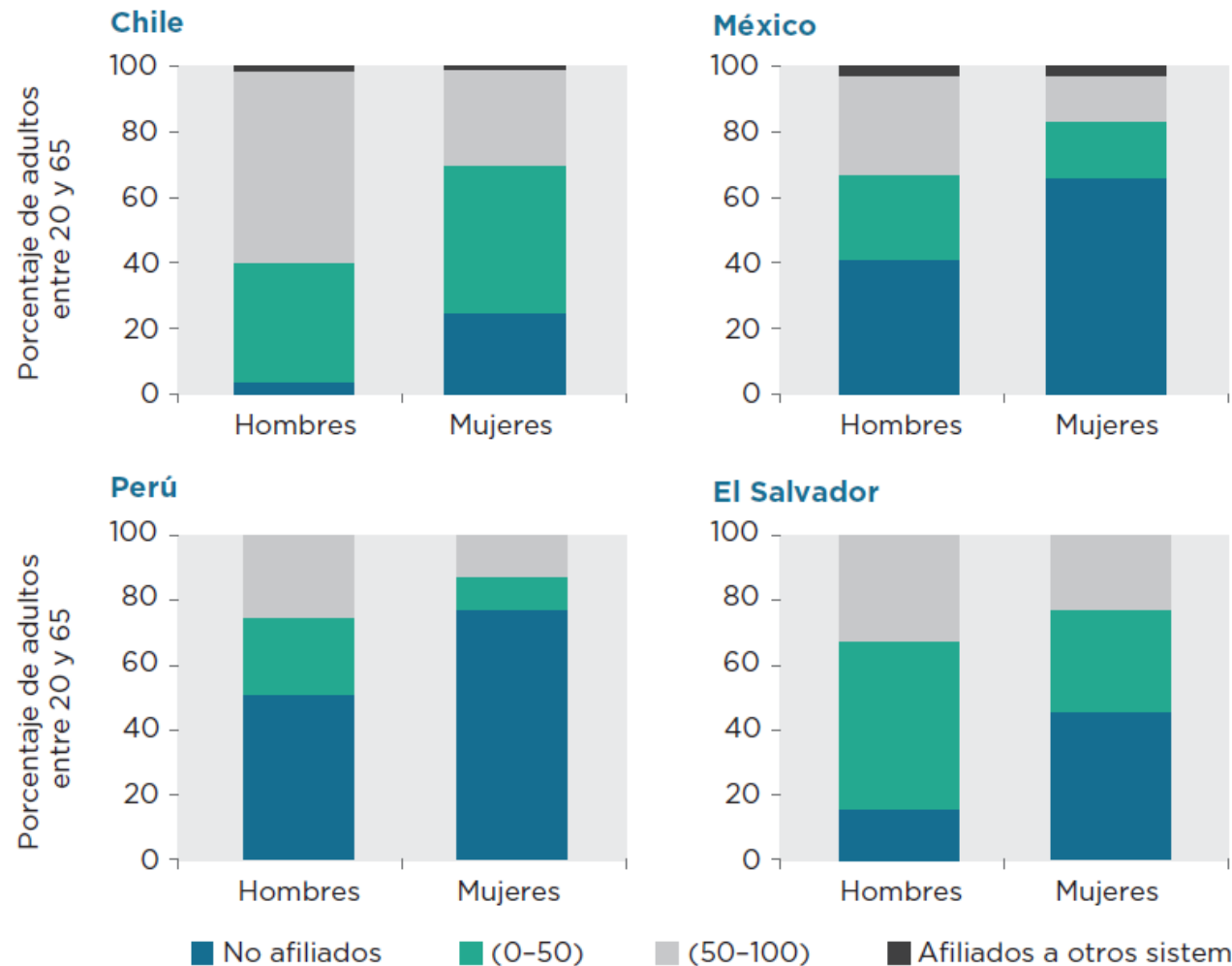




# All these give rise to very low contribution densities, especially for women

Gráfico 2.11

Porcentaje de hombres y mujeres por condición de afiliación según densidades de cotización: Chile, México, El Salvador y Perú





Between 47% and 60% of adults 65<sup>+</sup> will not have an adequate pension, with consequences:

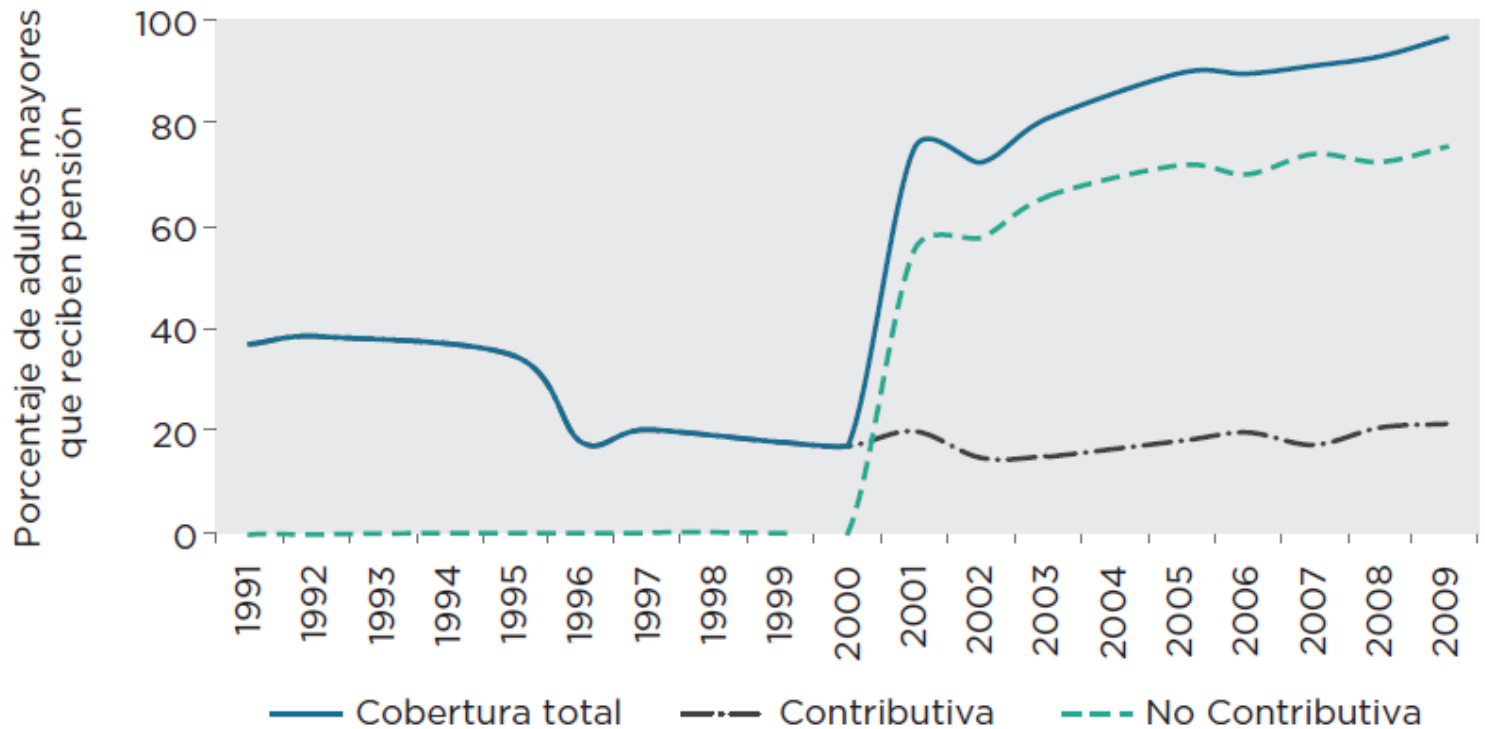
- ❑ **Social:** Families will need to devote greater effort to the care of the elderly.
- ❑ **Political:** Adults 65<sup>+</sup> will make up between 20% and 30% of the potential voters.
- ❑ **Fiscal:** Lack of coverage represents (also) an implicit fiscal cost.
- ❑ **Economic:** How coverage gaps are closed can have an impact on productivity growth.





# Non-contributory pensions as one of the major innovations

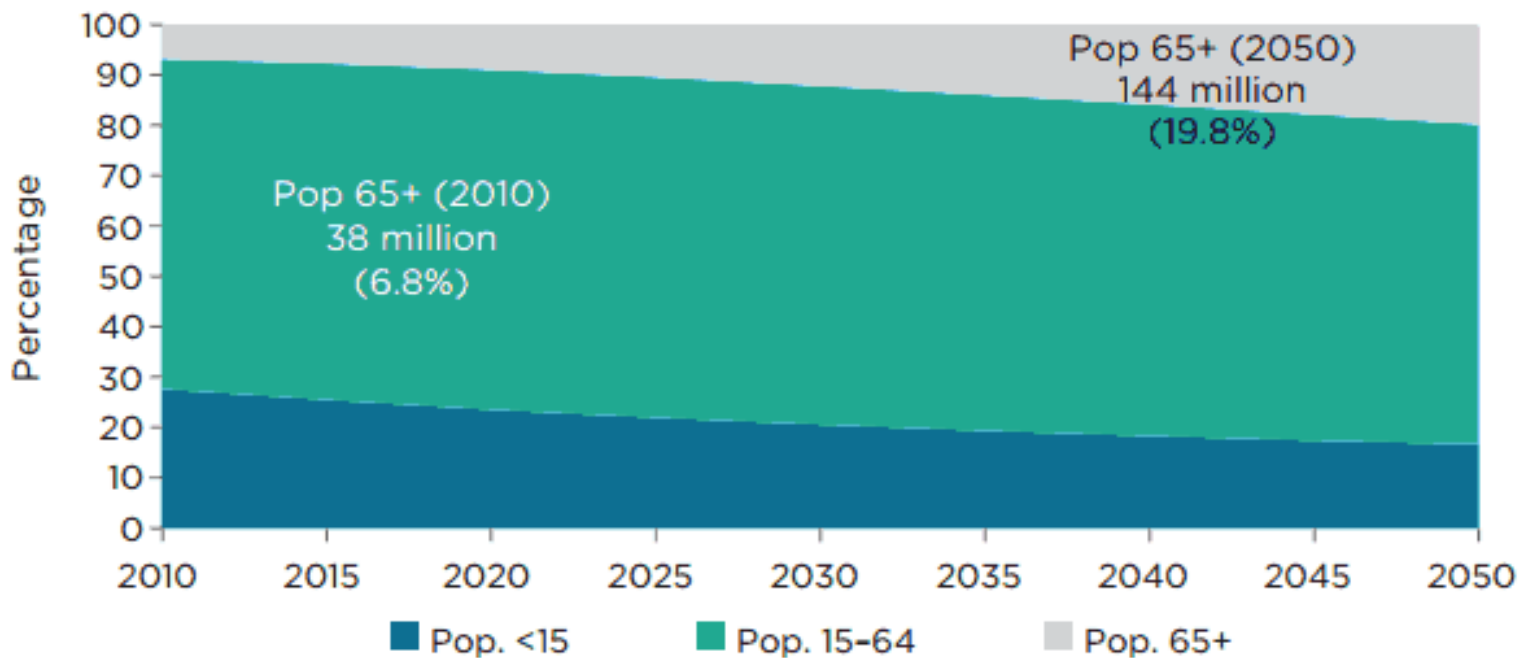
## Bolivia





# Pop 65+ will more than triple in four decades

## Population projection for Latin America and the Caribbean, 2010-50



Source: Bosch, Melguizo, and Pagés (2013).



## Better pensions: Anti-poverty pension

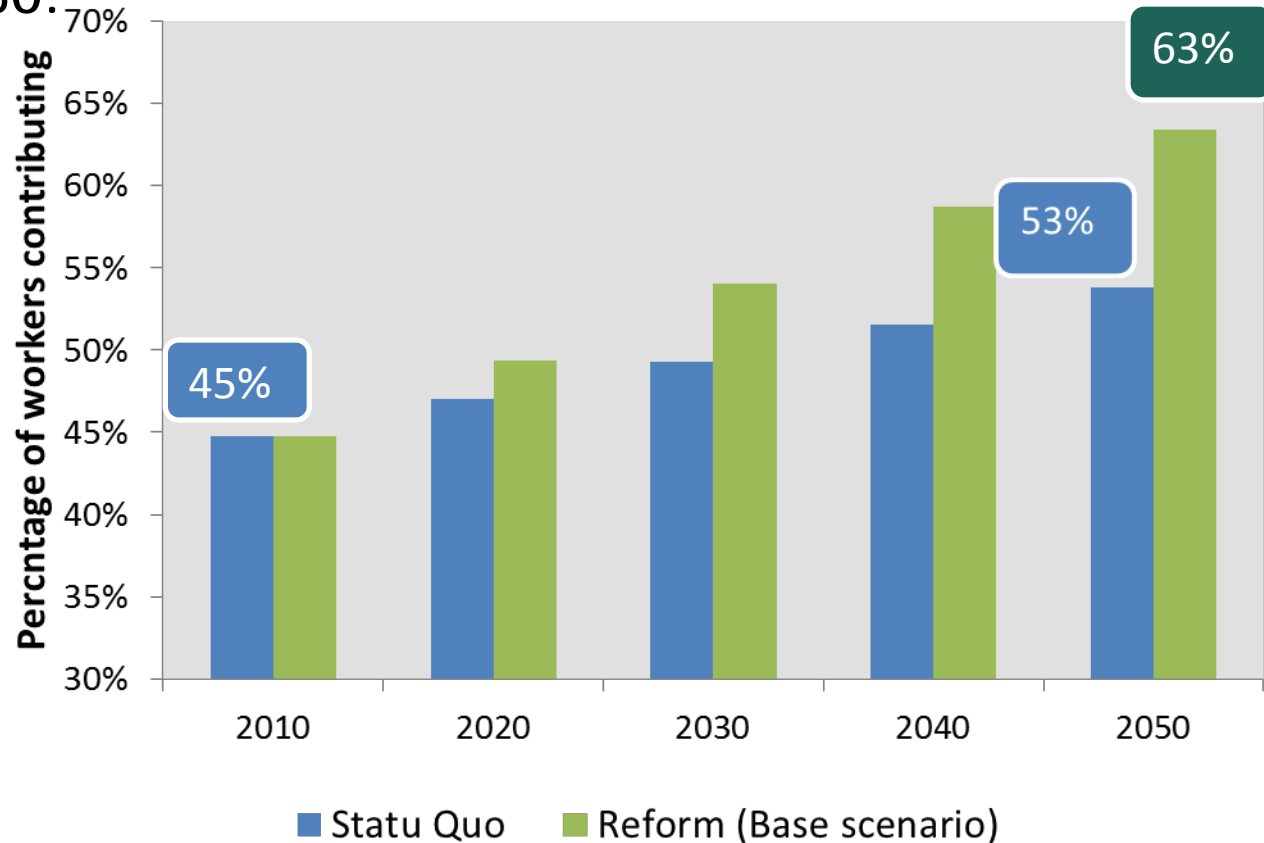
- ❑ Anti poverty: 10%-20% of PIB per capita
- ❑ Sustainable : Inflation adjusted.
- ❑ Efficient: Universal with age and residence criteria

This could reduce poverty among elderly from 19.3% to 0%.



# Better jobs: Subsidizing formal employment

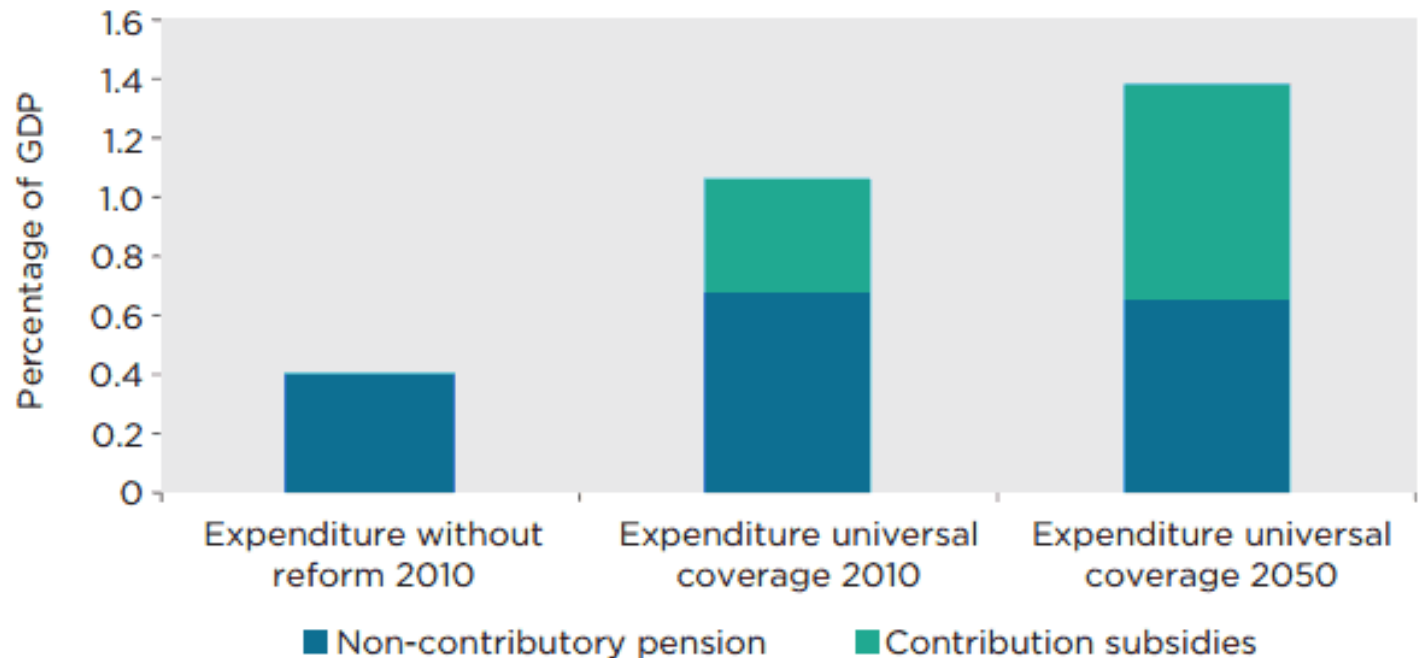
- ❑ With no reform : Formality will increase for 45% to 53%
- ❑ With subsidies we estimate it could increase to 63% by 2050.





# 1.5 % of GDP would eradicate poverty for Pop 65+ and increase formal employment by 20-30%

Cost of pension reform, compared with current spending on non-contributory pensions



Source: Bosch, Melguizo, and Pagés (2013).

# Indexation is crucial for the fiscal sustainability

Gráfico 4.2

El salario mínimo y el costo de las pensiones rurales en Brasil, valor real y contrafactual, 1995-2011

