

The coverage gap in Latin America: Challenges to expand old age income protection

Rafael Rofman

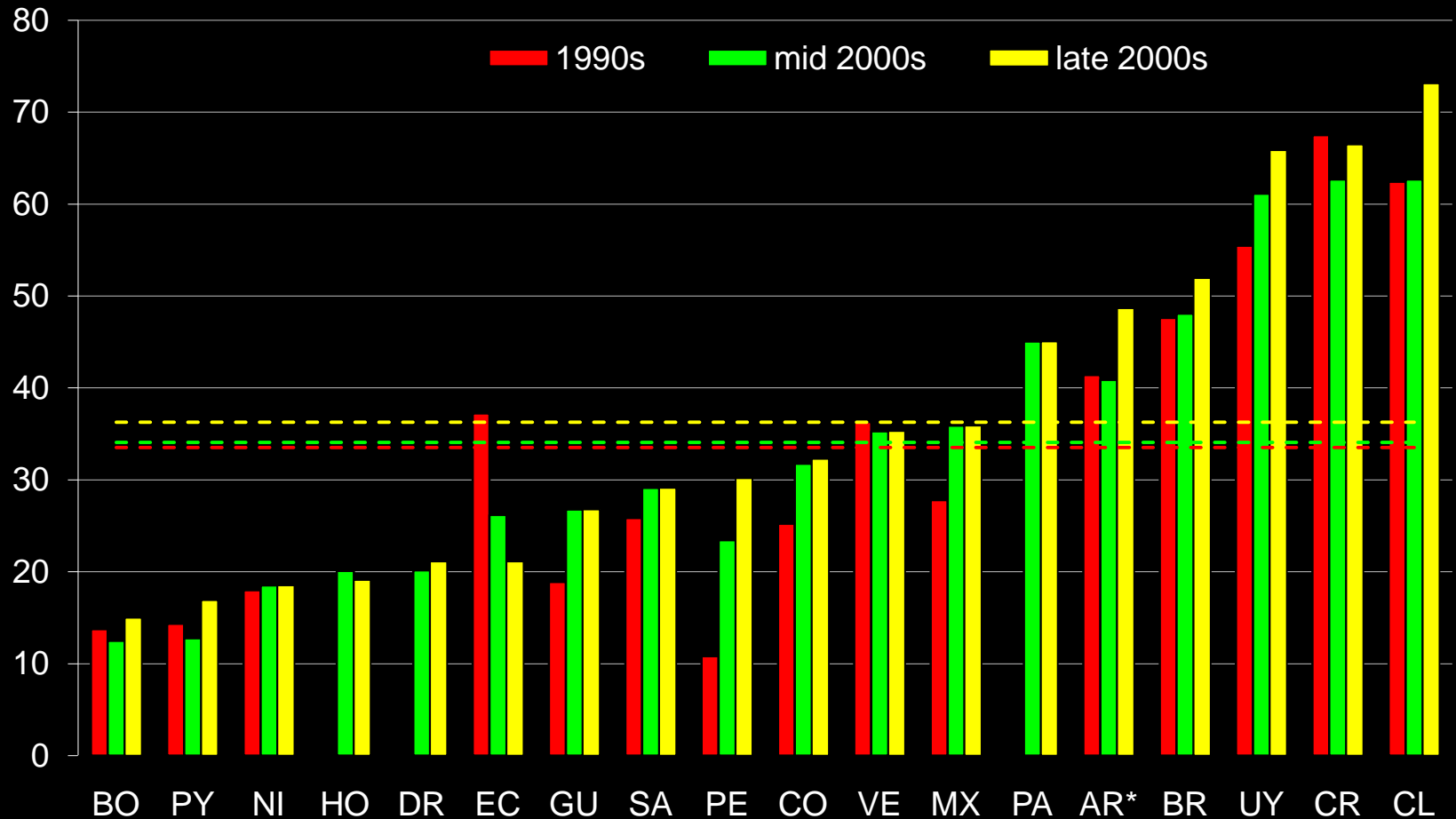
The World Bank

Outline

- Pension coverage in LAC and poverty incidence:
What can we expect from traditional pension schemes?
- Alternative approaches?

Active workers coverage...

(% of labor force contributing to SS)

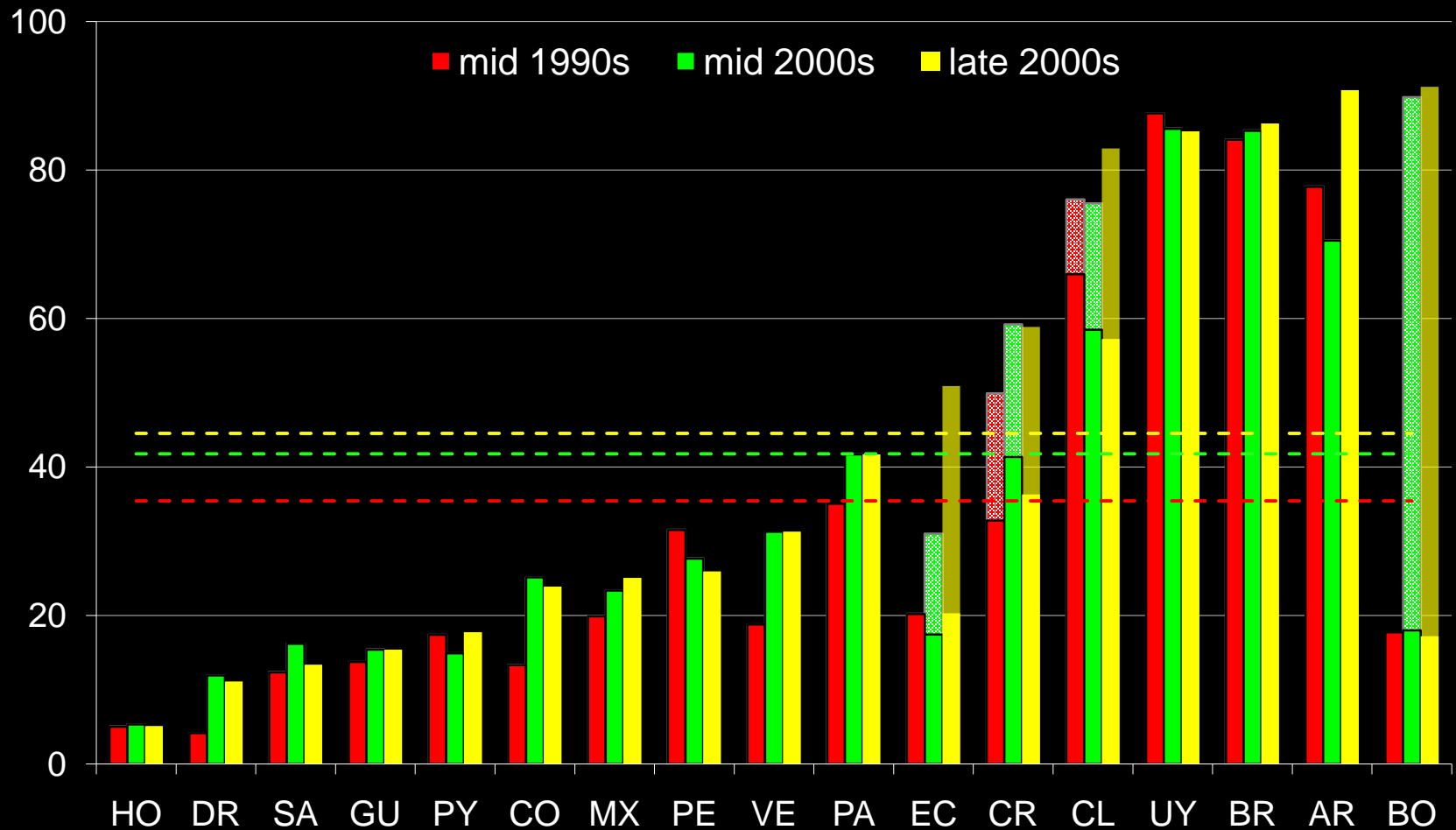


Note: (*) Does not include coverage of independent workers

Source: Rofman & Oliveri (2011)

Elderly coverage...

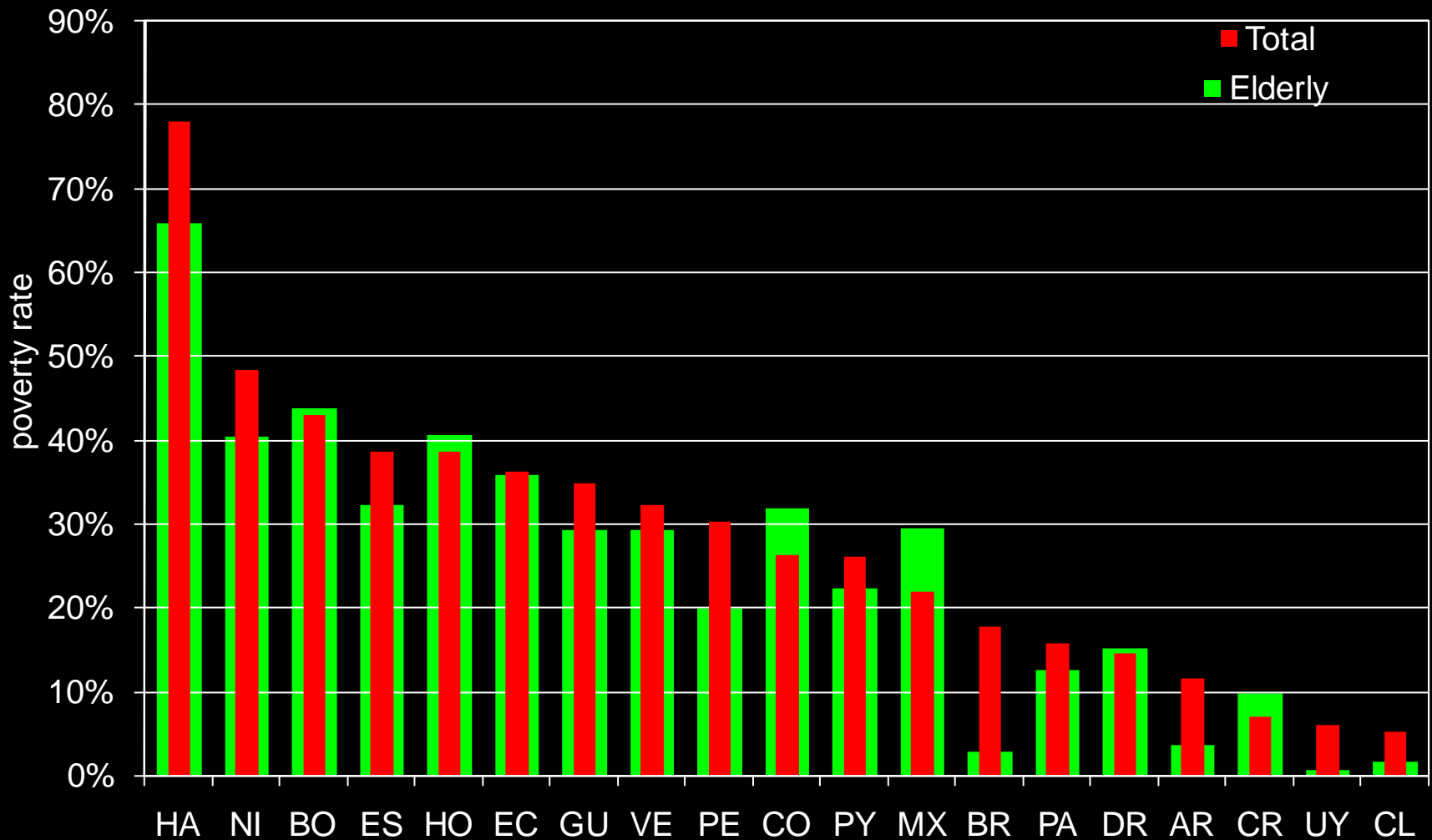
(% of population 65 and older receiving benefits)



Source: Rofman & Oliveri (2011)

Poverty rates

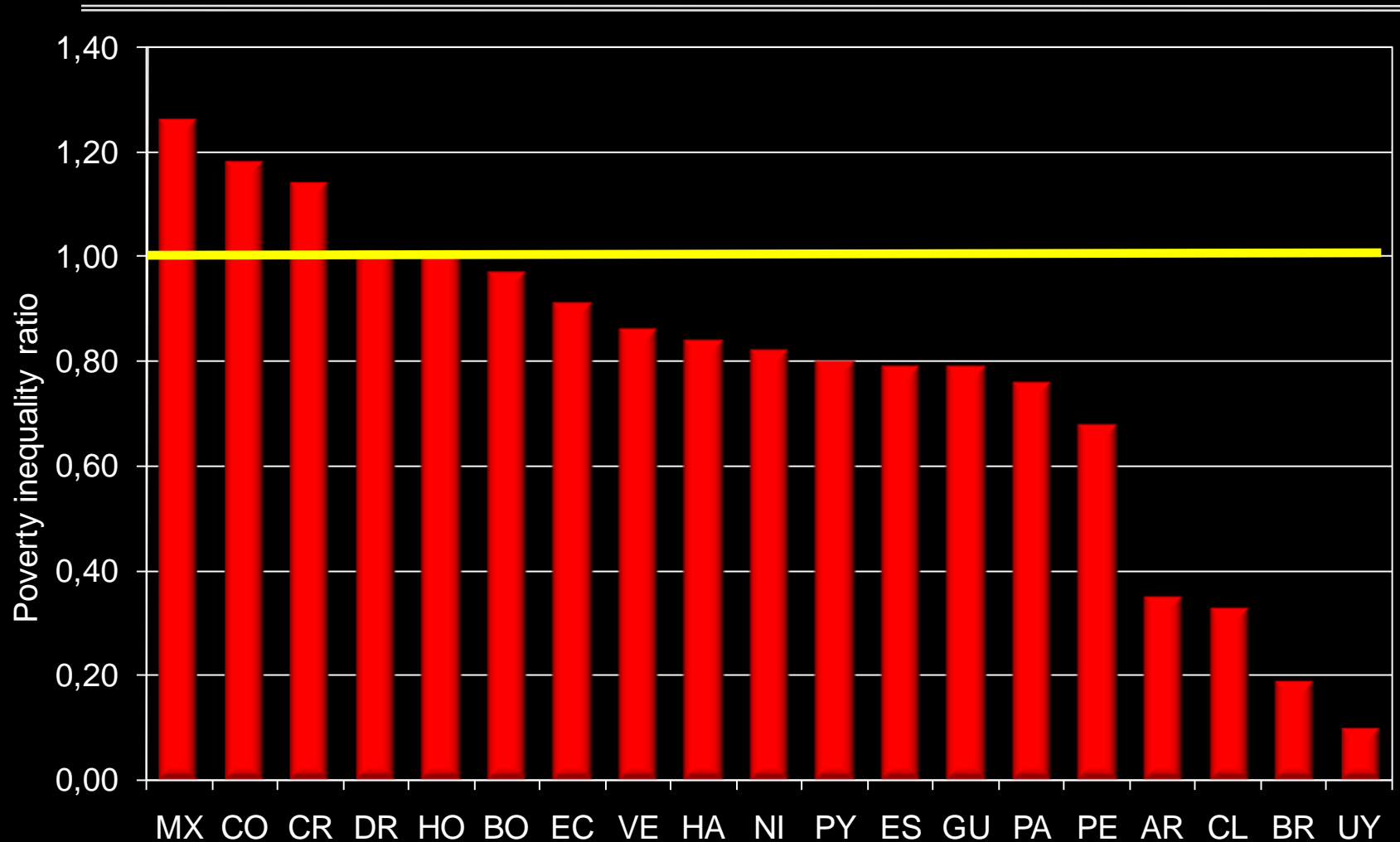
(total and elderly)



Source: Gasparini et al (2007)

Poverty inequality

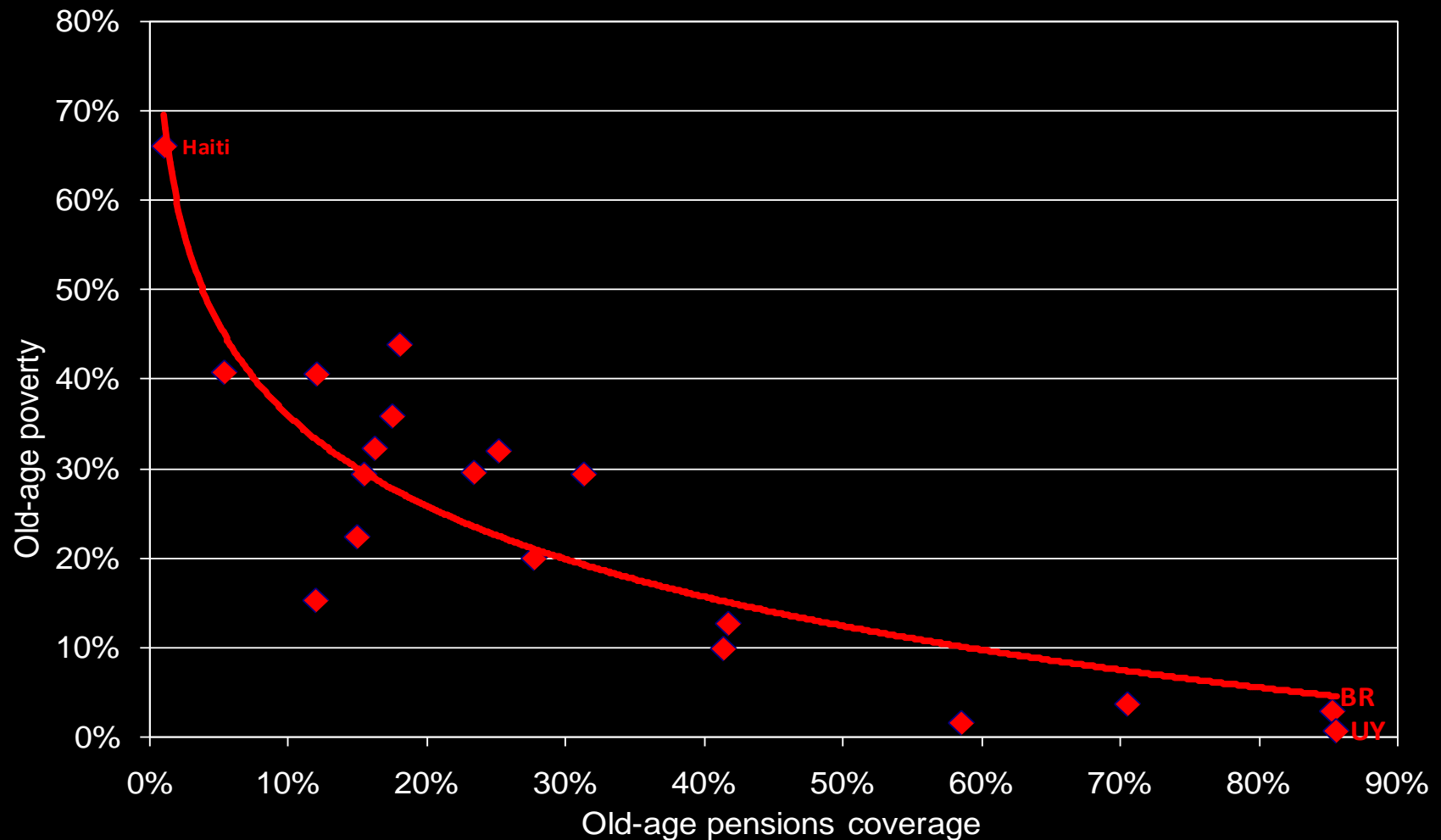
(ratio of poverty among elderly over poverty among children)



Source: Gasparini et al (2007)

Elderly coverage and poverty

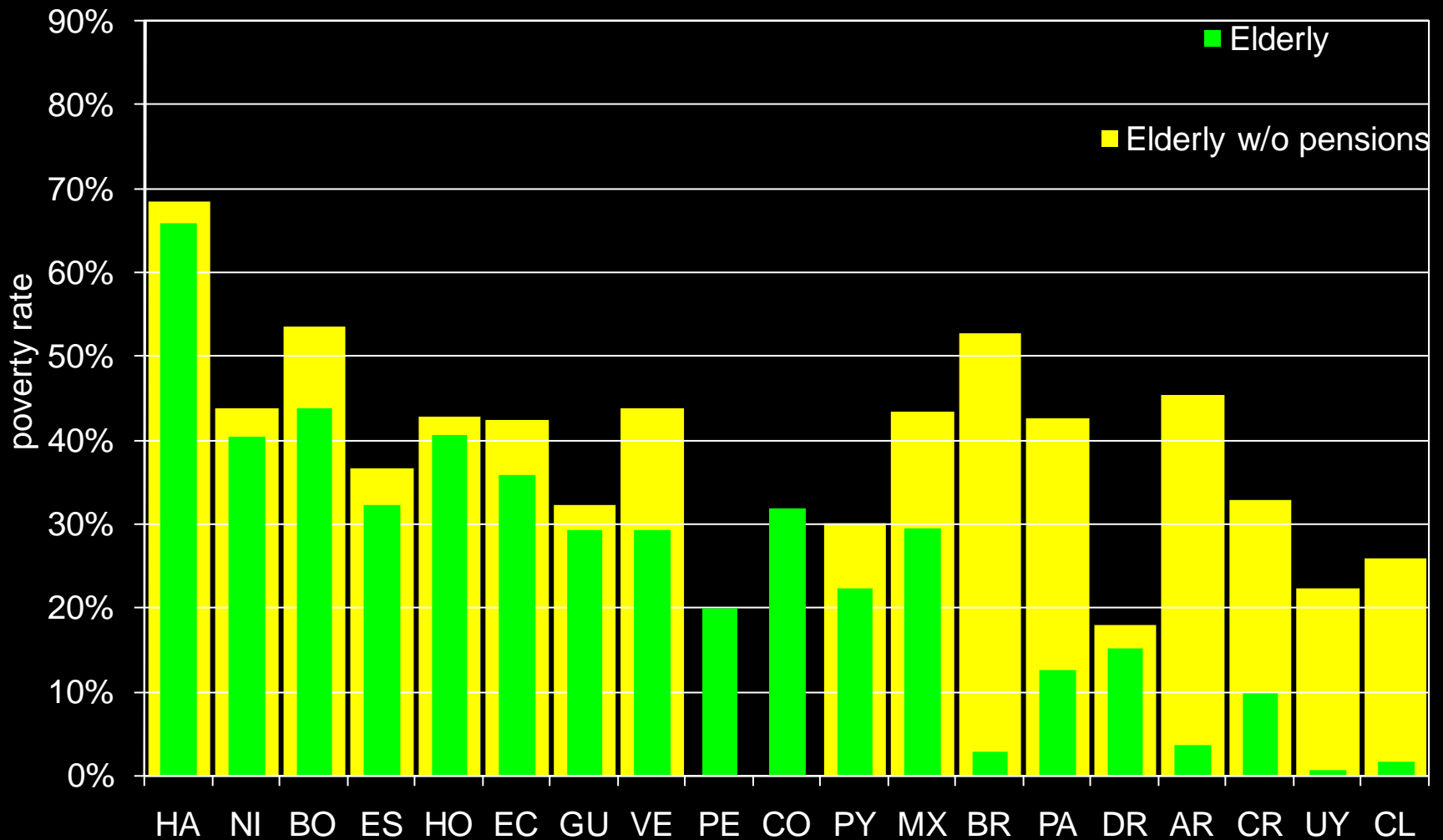
(% of pop. 65+ receiving benefits vs % of pop. 65+ under poverty line)



Source: Rofman, Lucchetti and Ourens (2008), Gasparini et al (2007)

Poverty rates

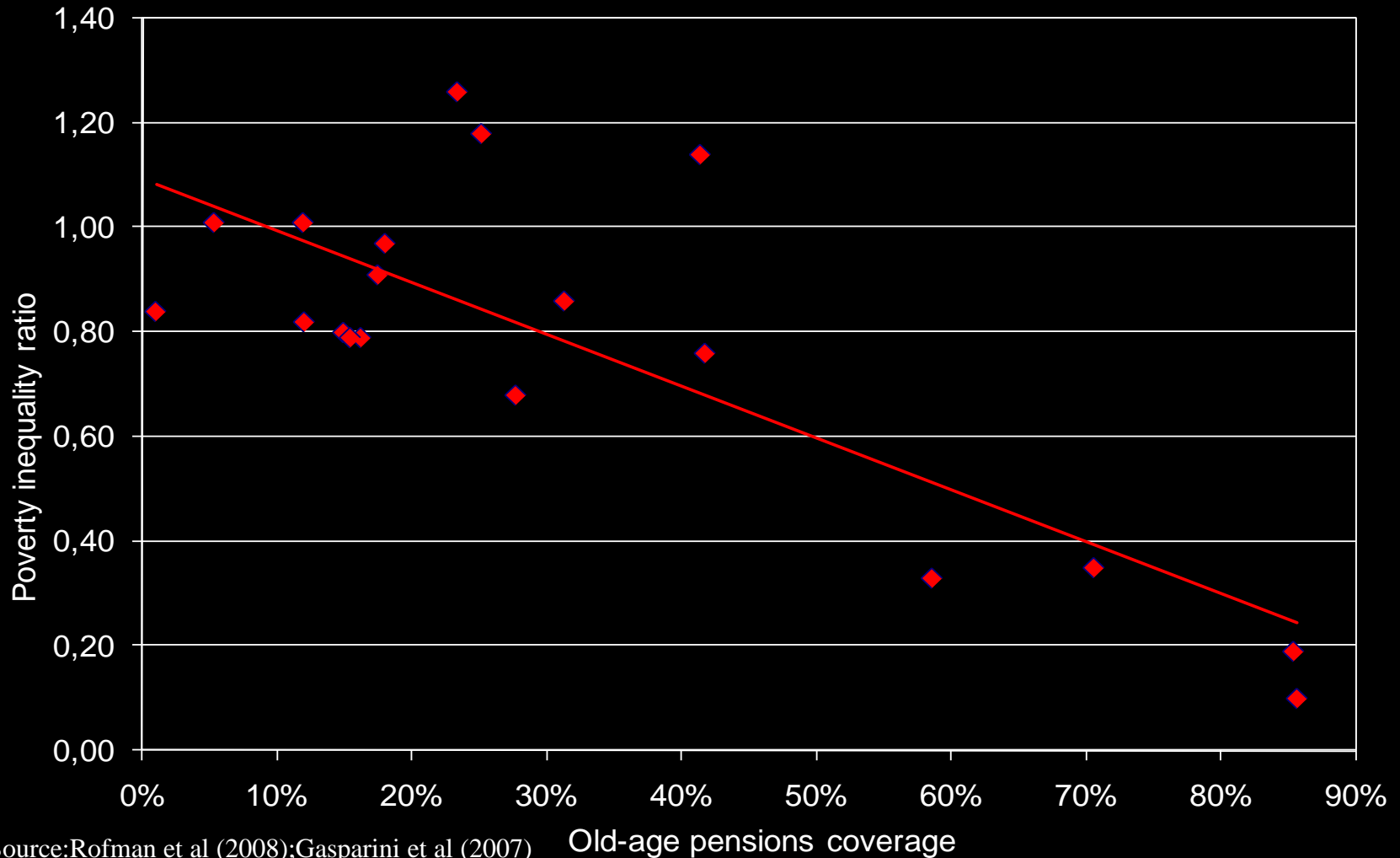
(elderly, with and without pensions)



Source: Gasparini et al (2007)

Pension coverage and Poverty inequality

(% of pop 65+ receiving benefits vs. poverty inequality ratio)



Source: Rofman et al (2008); Gasparini et al (2007)

Thus...

- High heterogeneity in:
 - Coverage,
 - Poverty,
 - Poverty ratios
- High coverage countries have lower poverty (expected), and low ratios (expected?)
- We don't have the data to run full simulations of what would happen without pensions, but results hint that their role is critical

Current policy trends: Alternative strategies

- On old age coverage, several approaches:
 - Increase compliance
 - Easier access to contributory benefits
 - Non Contributory benefits
 - Intermediate approaches

More compliance

- Strategy depends on diagnostic:
 - If participation is low because of poor incentives
 - Matching contribution (CO, EC?)
 - More transparency and efficiency
 - Reduced contribution rates/Paperwork simplification (“Monotributo”)
 - If participation is low because of weak enforcement
 - Increase supervision
 - Integrate information systems

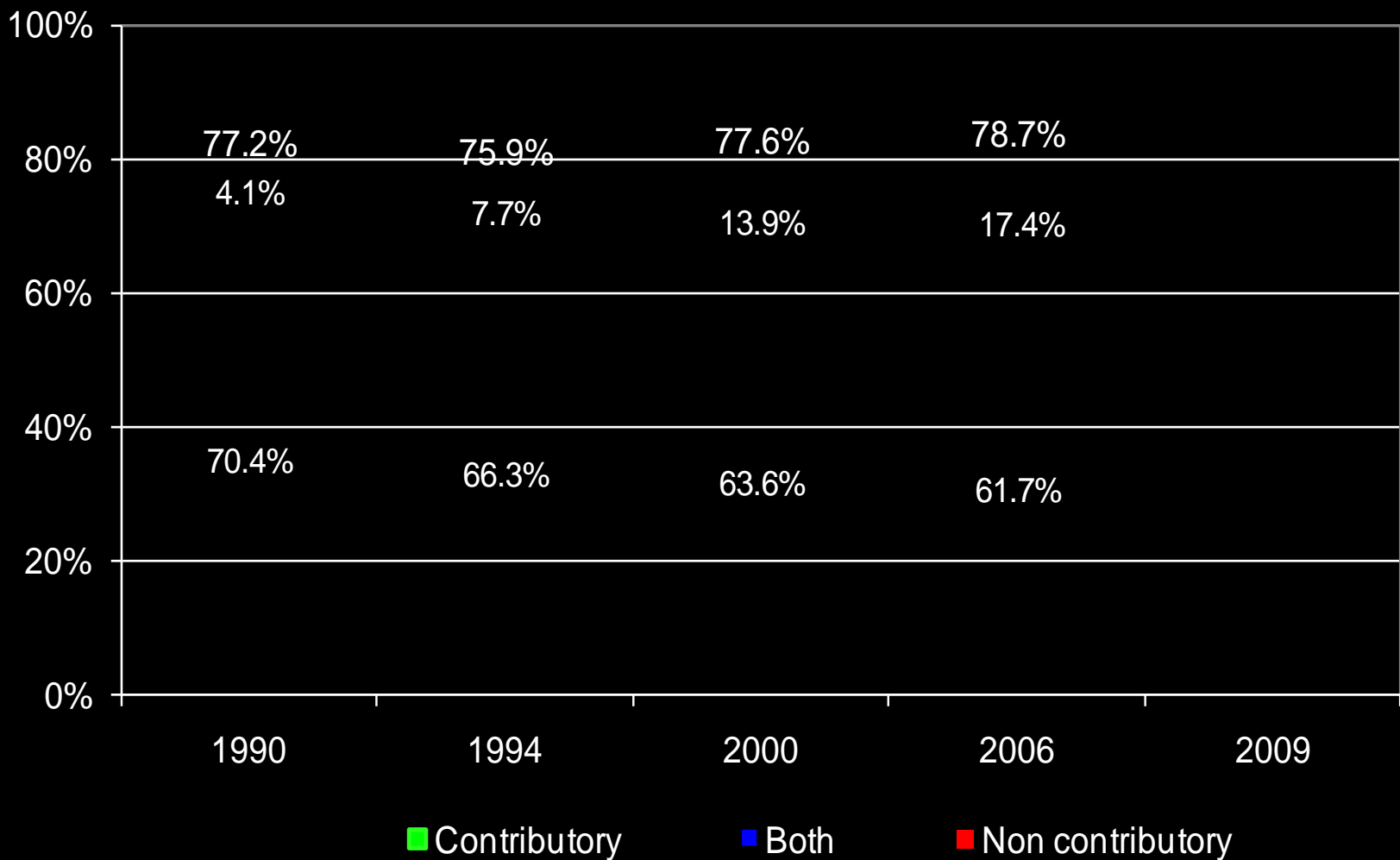
Easier access

- Reduce vesting period
 - Reasonable in some cases (UY, reduced from 35 to 30 yrs), better to offer proportional benefits
- Early retirement
 - No impact on final coverage, improves temporary problems

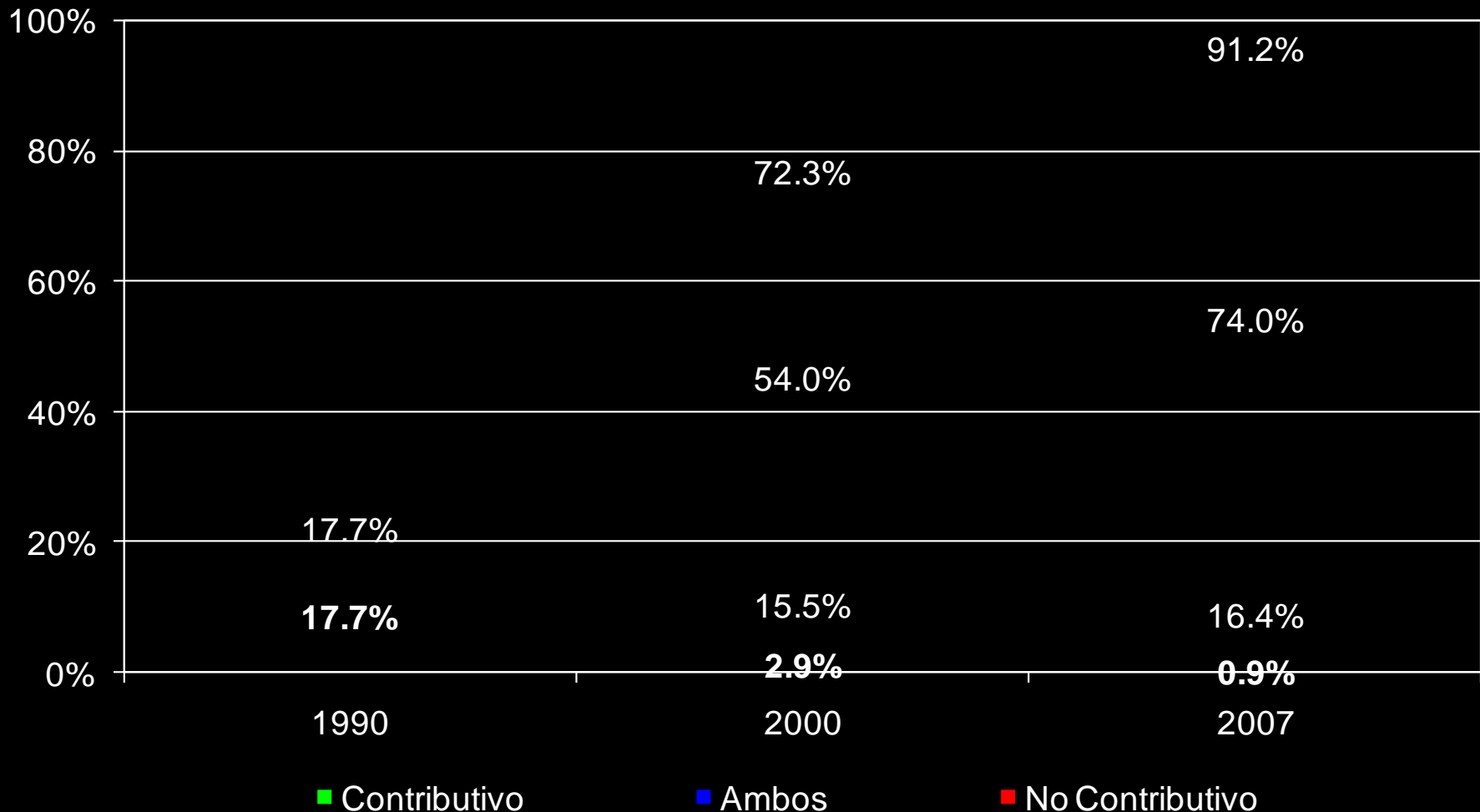
Non contributory benefits

- If targeted and small
 - Small impact (4% of Chile's, 3% of Argentina's elderly in the early 1990s)
- If universal and large
 - Incentives problems
 - Fiscal restriction
- Challenge: Find a balanced option!
- RECENT EXPERIENCES

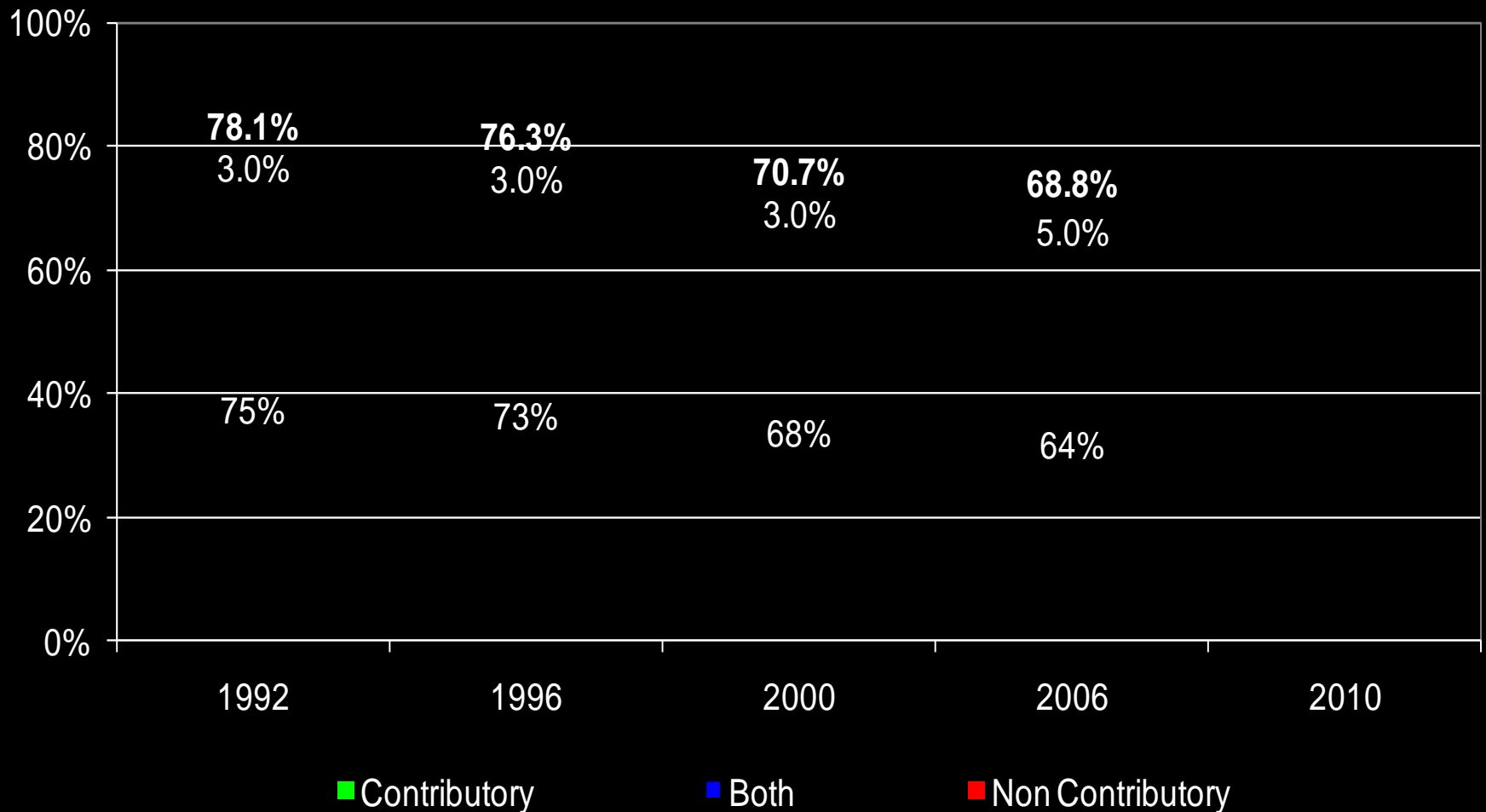
Chile: Complementing a high coverage level



Bolivia: Universal Benefit



Argentina: Moratoria



Conclusion

- Coverage is still a challenge in LAC, in particular in countries with high poverty
- Actions to increase participation of active workers are welcome, but experience shows that impact has been limited
- Some countries focusing on non contributory schemes, for both children and elderly
- Challenge is to ensure equity and sustainability of social policies as a whole