

# **Aging and Social Security in Latin America**

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Structures and Sustainable Development**  
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# Agenda

- ◉ Context: The circular debates in Latin America
- ◉ Aging and Pensions in the Twenty first Century:  
the arithmetic concerns
- ◉ Core challenges for the medium and long  
term
- ◉ Some Conclusions

# Circular debates: how the short term prevails over structural debates

Analysts' focus cycles around three core topics in pensions:

**Coverage**

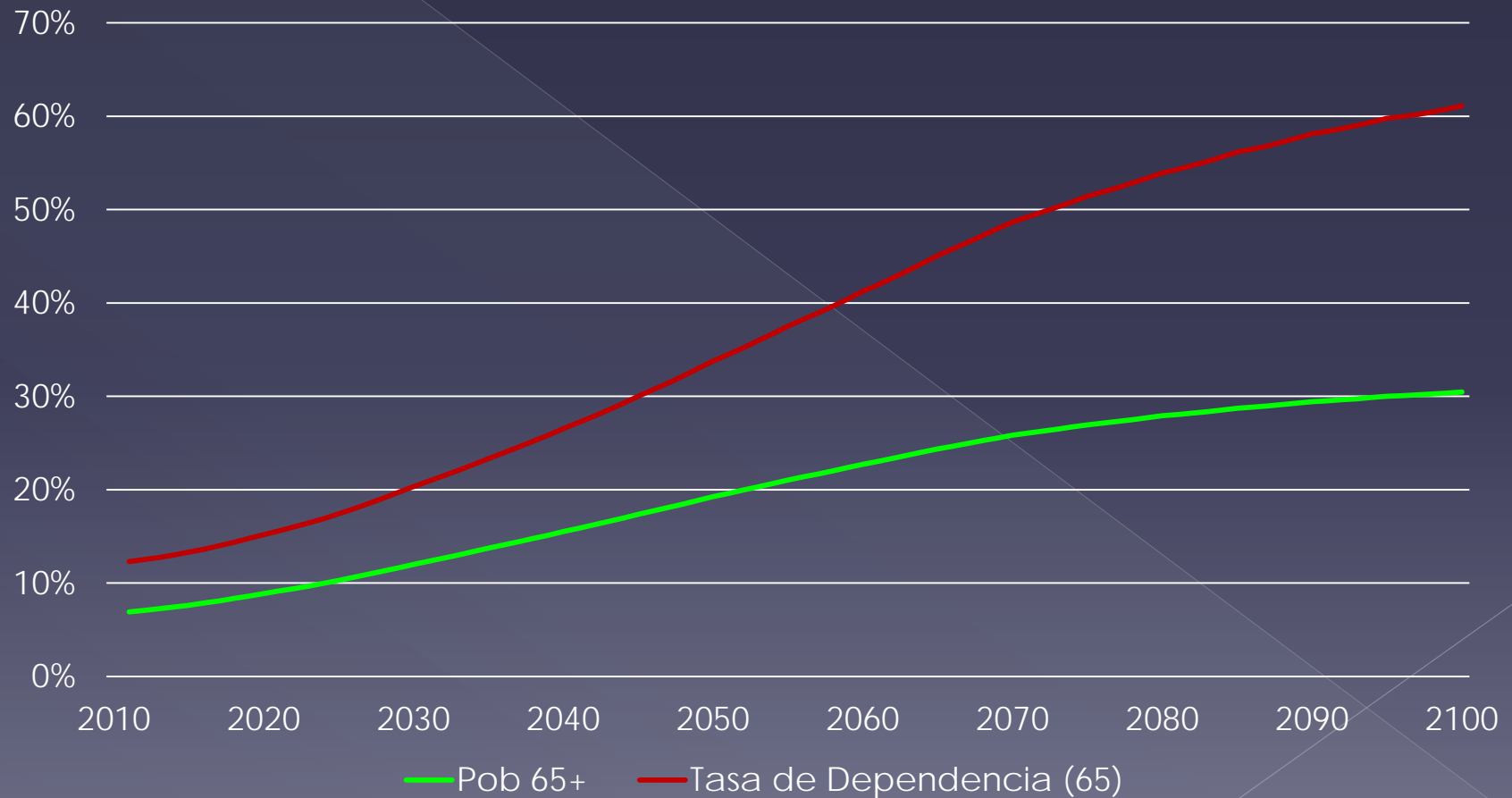
**Sustainability**

**Adequacy**

- In recent years, focus is back on adequacy:
  - Peru: nearly full withdrawal from AFP
  - Argentina: Adjustments in benefits for retirees (40% average)
  - Chile: Demands for better benefits, government announcements
  - Uruguay: Debates around transitional generation

# Aging and pensions: arithmetic concerns

Latin America 2010-2100: % of elderly and dependency rate



# Policy responses

## Population

### Parametric Reforms:

- Increase minimum retirement age
- Increase vesting period
- Reduce informality
- Increase labor force participation (women)

## Financial

### Parametric Reforms:

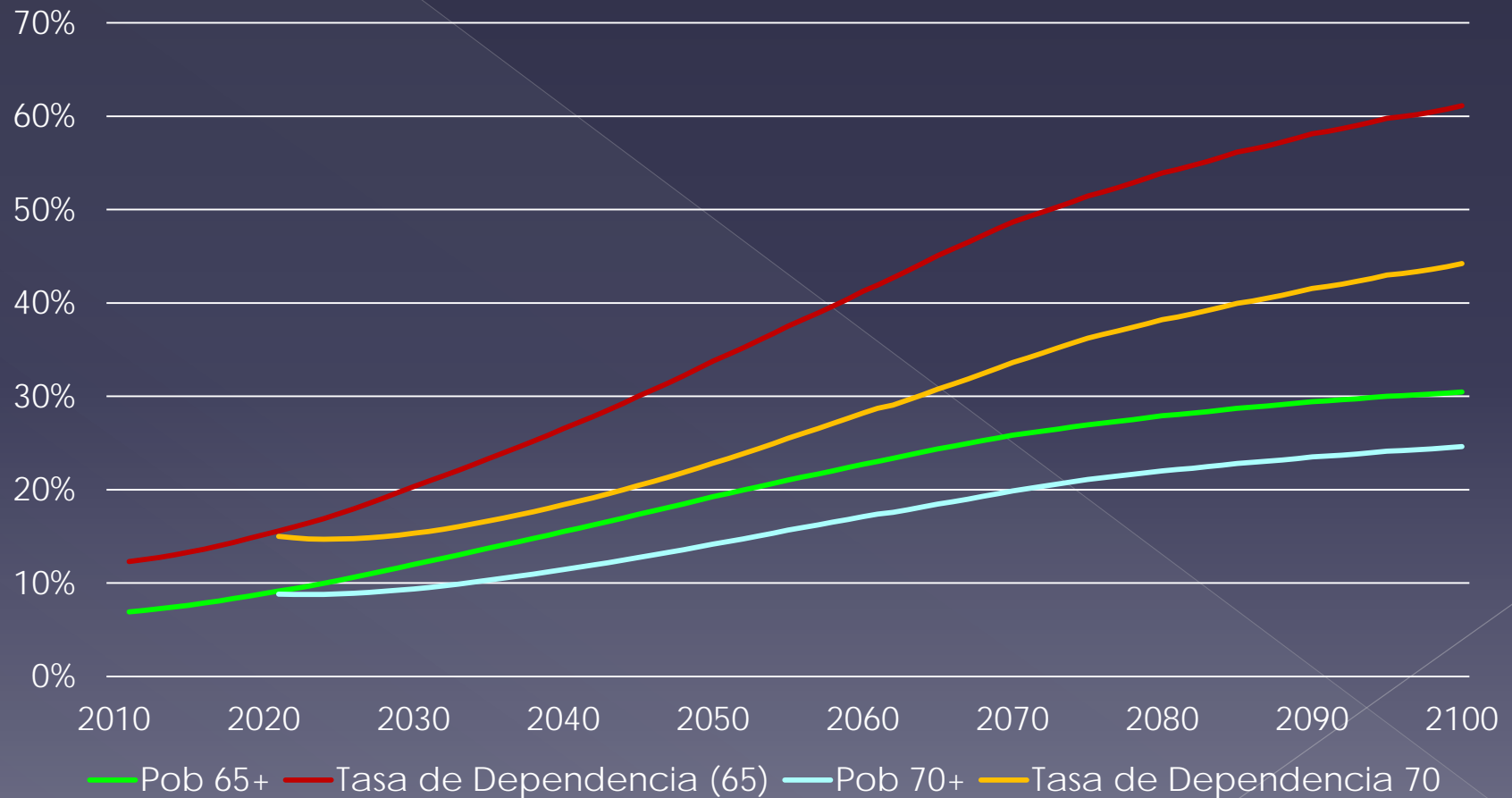
- Increase contribution rates
- Reduce replacement rates
- Find alternative financing sources

## Structural Reforms:

Introduce funded pillars, with implicit parametric changes and risk transfer from State to Individuals

# Aging and pensions: arithmetic concerns

Latin America 2010-2100: % of elderly and dependency rate



# But, are these long term solutions?

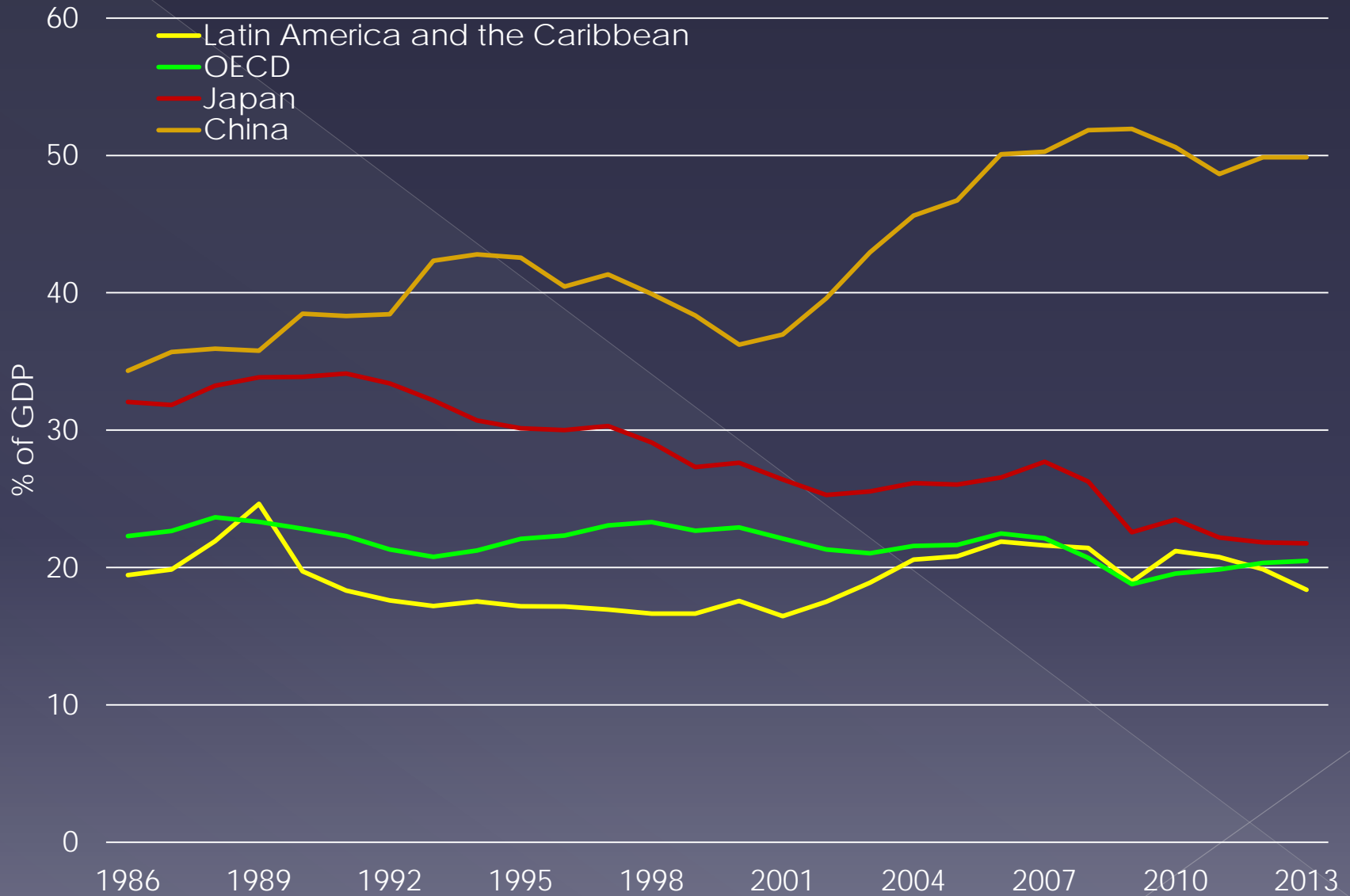
- › They improve fiscal results, but are also part of a zero sum game, that re-distributes burdens and benefits (inter and intra generational)
- › The real challenge is to expand the supply of goods and services on a per capita basis
- › This is difficult when population of working age is declining

# Long term responses

- › More investment (a long term problem in Latin America!)
  - In physical capital (Infrastructure, equipment...)



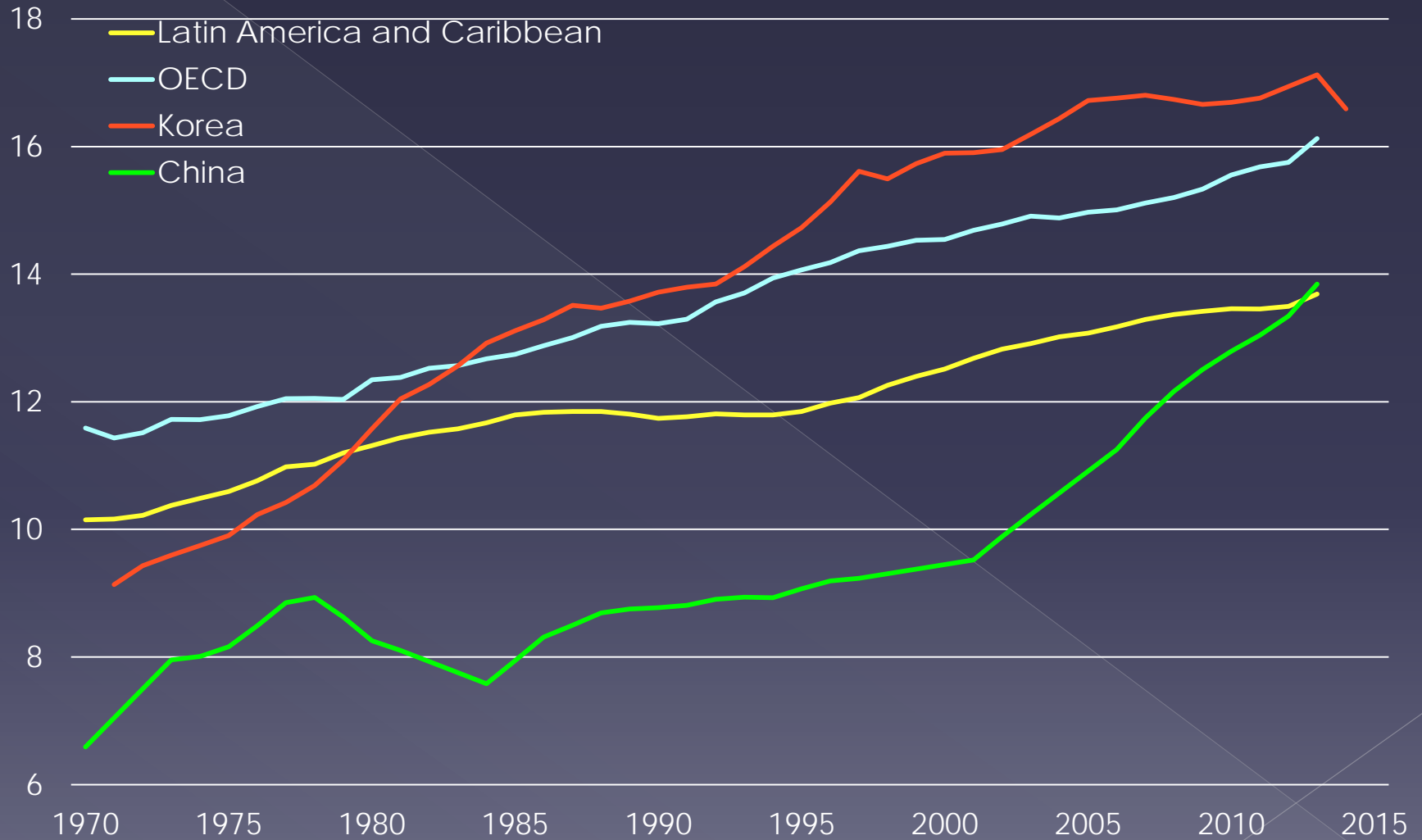
# Gross Domestic Savings Rates



# Long term responses

- › More investment (a long term problem in Latin America!)
  - In physical capital (Infrastructure, equipment...)
  - In human capital (education, training)

# Expected years of schooling



# Long term responses

- › More investment (a long term problem in Latin America!)
  - In physical capital (Infrastructure, equipment...)
  - In human capital (education, training)
- › More productivity
  - Development and adoption of technology
- › Effective Distribution

Distributive systems associated to labor market will weaken: Protection should shift from workers to citizen

# In conclusion

- › Demographic trends will affect current social security institutions sustainability
- › As policy debates tend to be dominated by short term issues, there is little space to discuss longer term solutions
- › Parametric and structural reforms will shifts burdens and risks, but not solve the problem
- › Sustained growth is critical. For this: Human Capital, Physical Capital, Productivity
- › However, that will not be enough. The traditional contributory pension model has significant limitations to achieve social goals

Thanks!