The Pension System in Argentina

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  - Fiscal
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Background

- Argentina’s pension system is more than 100 years old
- Traditionally fragmented
- Legal coverage was, by the late 1950s, universal
- Financial crisis recurrent, due to lack of planning and poor management
The Reforms

- In 1993, a new law introduced major reforms in the system, creating a multipillar scheme:

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Four reforms in one I: Parametric

- Higher personal contribution rate (from 10% to 11%)
- Higher retirement age (by 5 yrs, to 60/65)
- Higher contribution history requirement (from 20 to 30 yrs)
- Benefit Indexation linked to wages and collection (a year later indexation was suspended)
Four reforms in one II: DB to DC

- Benefits used to be a defined % of previous earnings.
- New formula more complex, with a higher level of DC (or UB?).
- Some risks transferred to workers, softened by annutization requirement, universal basic benefit, and minimum returns.
Four reforms in one III: Financial

- Since the mid 1960s, the pension system was fully PAYG, with subsidies from general taxes.
- The reform introduced a funded scheme, reducing, in the medium term, the financial responsibility of the State.
Four reforms in one IV: Institutional

- Private sector authorized to participate in management.
- Specialization required, and specialized supervision agency was created.
- Disability and survivors risks covered by insurance companies.
- Benefits partly paid by insurance companies.
Four reforms in one...

- Each of the reforms could have been implemented without affecting the others.
- However, the political economy of the process is critical to understand why they had to go together.
The reform impacts: Fiscal

Pension Spending by Government level. 1980-2004
The reform impacts: Transition Cost

Transition Costs of Pension Reform. 1993-2001

- Revenue Loss
- Savings
- Transition Cost

% of GDP

- 2.0%
- 1.5%
- 1.0%
- 0.5%
- 0.0%
- -0.5%
- -1.0%

1993 1995 1997 1999 2001
The reform impacts: Coverage
The reform impacts: Coverage

Elderly
Quintile I
Quintile V

The reform impacts: Private market performance

- Initial high rotation of affiliates led to restrictions in competition
- Managers return were very high, until affected by financial crisis
- Insurance market non competitive. Serious valuation problems, possible excessive reserves result in high costs
- Overall, no evidence of significant increases in efficiency or reductions in costs due to market competition
Pension fund returns

Source: SAFJP, 2005
What’s next?

- The system survived the crisis in good shape
- However, several problems that existed before were made more evident, and need work:
  - Coverage
  - Institutional Design
  - Competition in funded scheme
  - System Fragmentation
Coverage

- The system has four basic benefit with overlaps and serious gaps:
  - overall minimum benefit, all retirees;
  - PBU, with 30 yrs of contributions;
  - Old Age benefit, with 10 yrs;
  - Non contributive pensions, limited by budget

Replace with a simpler, continuous scheme
Institutional Design

- Political conflicts tend to hamper system efficiency
- The design in Argentina is OK on paper, but has too many problems in practice
- Supervisory agencies independence should be reinforced, administrative agencies role should be limited.
Funded Scheme competition

- Incentives structure is inadequate
- Two possible paths:
  - Promote competition, facilitating transfer and forcing transparency
  - Adopt new marketing mechanisms: collective contracts, group bidding
  - Regulate prices, directly or through regulations that protect workers interests.
System Fragmentation

- Twelve years after the reform, there are still more than 100 systems in Argentina.
- Recent legislation and political mood aims at more fragmentation.
- This should be brought higher in the agenda, to limit sector interests.
- Better integration can be obtained by centralizing or by coordinating schemes.
In conclusion

- The system has some structural problems, that limit its effectiveness as an old age income security policy.
- The recent crisis had an impact, mostly by exacerbating existing problems.
- Recent policies have been partial and, sometimes, contradictory.
- A more clear and explicit long term vision is necessary, if policies will have a lasting impact.