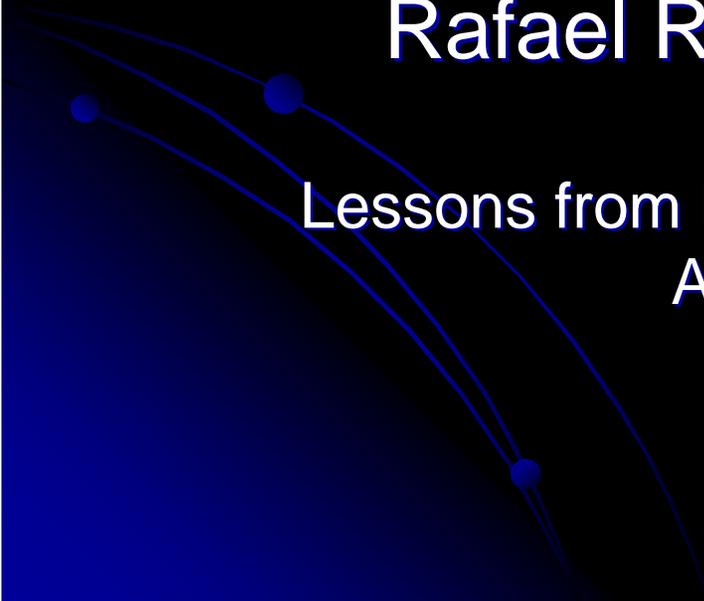


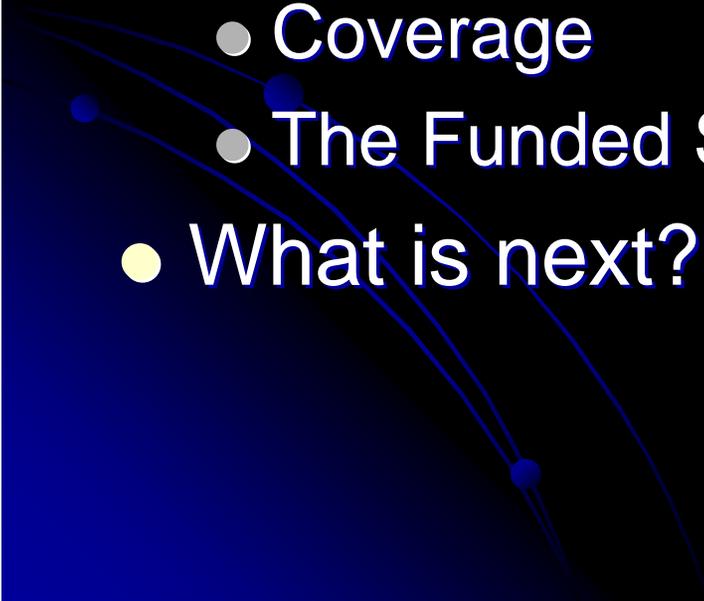
The Pension System in Argentina

Rafael Rofman, The World Bank

Lessons from Pension Reform in the Americas
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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 multi-pillar scheme:

	Public Scheme	Private Scheme	
Pillar II	Additional Benefit ("PAP")	Annuity	Scheduled Withdrawal
Pillar I	Basic Universal Benefit ("PBU")		

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 use 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
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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.

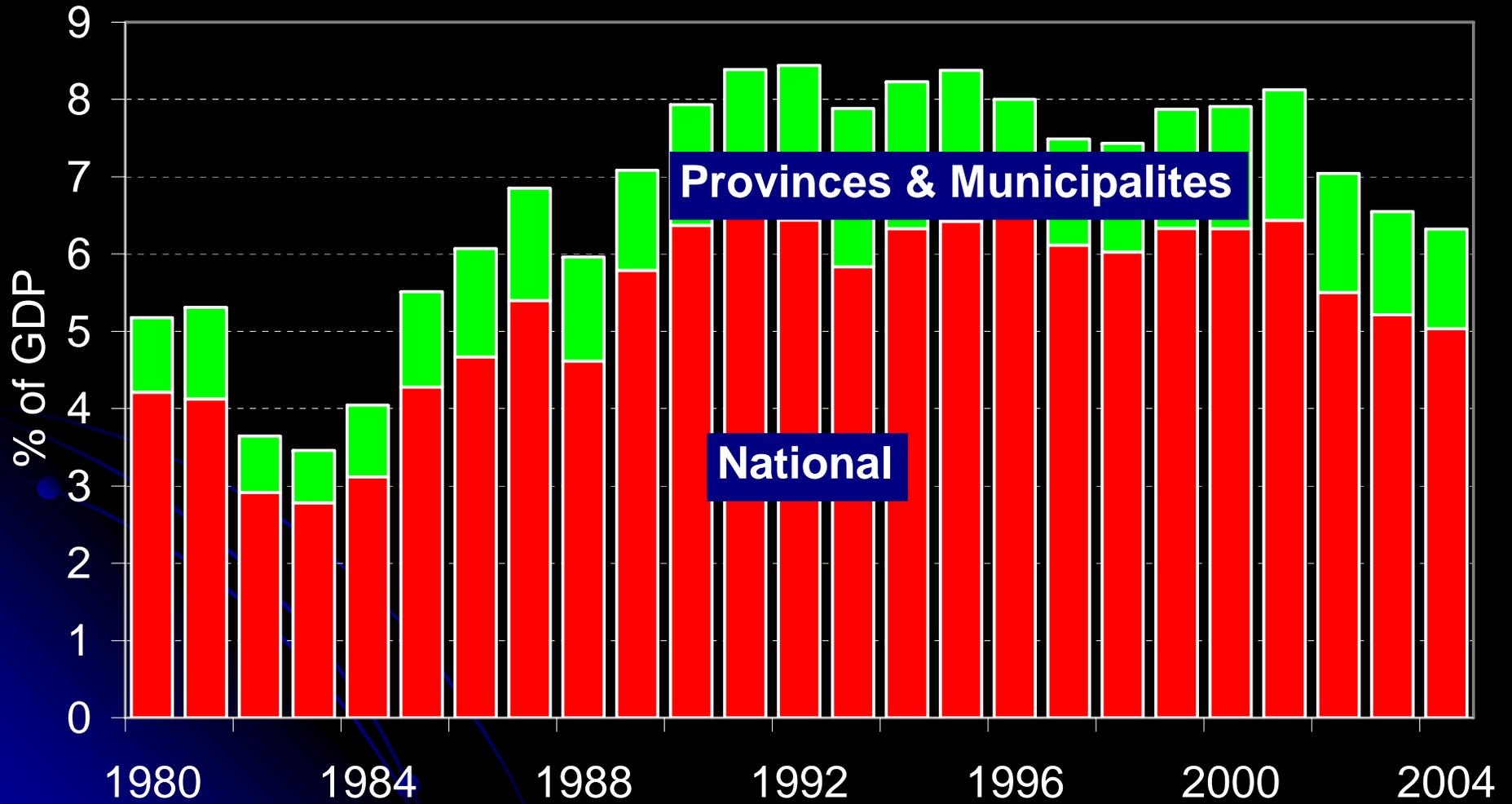
Four reforms in one...

- 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.



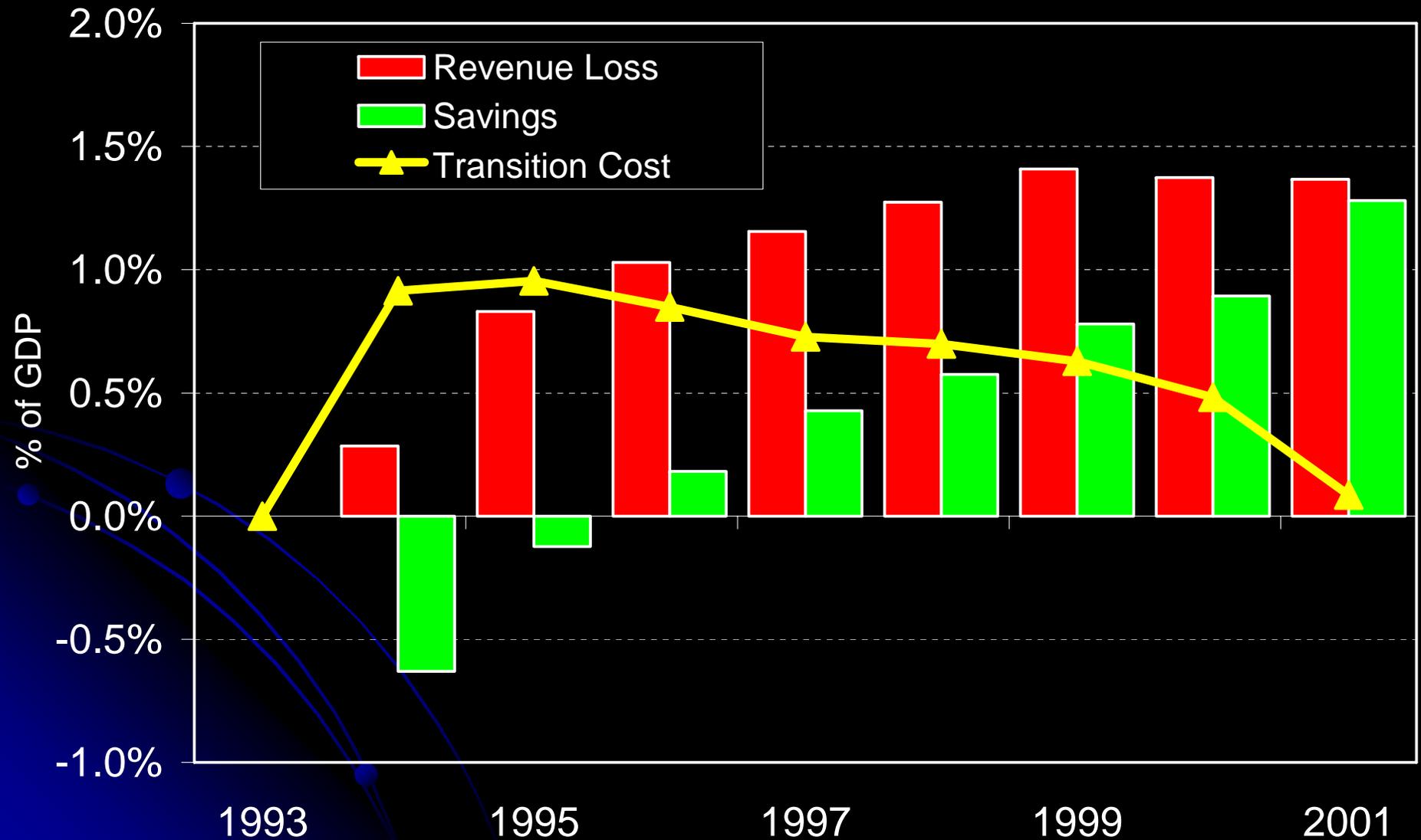
The reform impacts: Fiscal

Pension Spending by Government level. 1980-2004

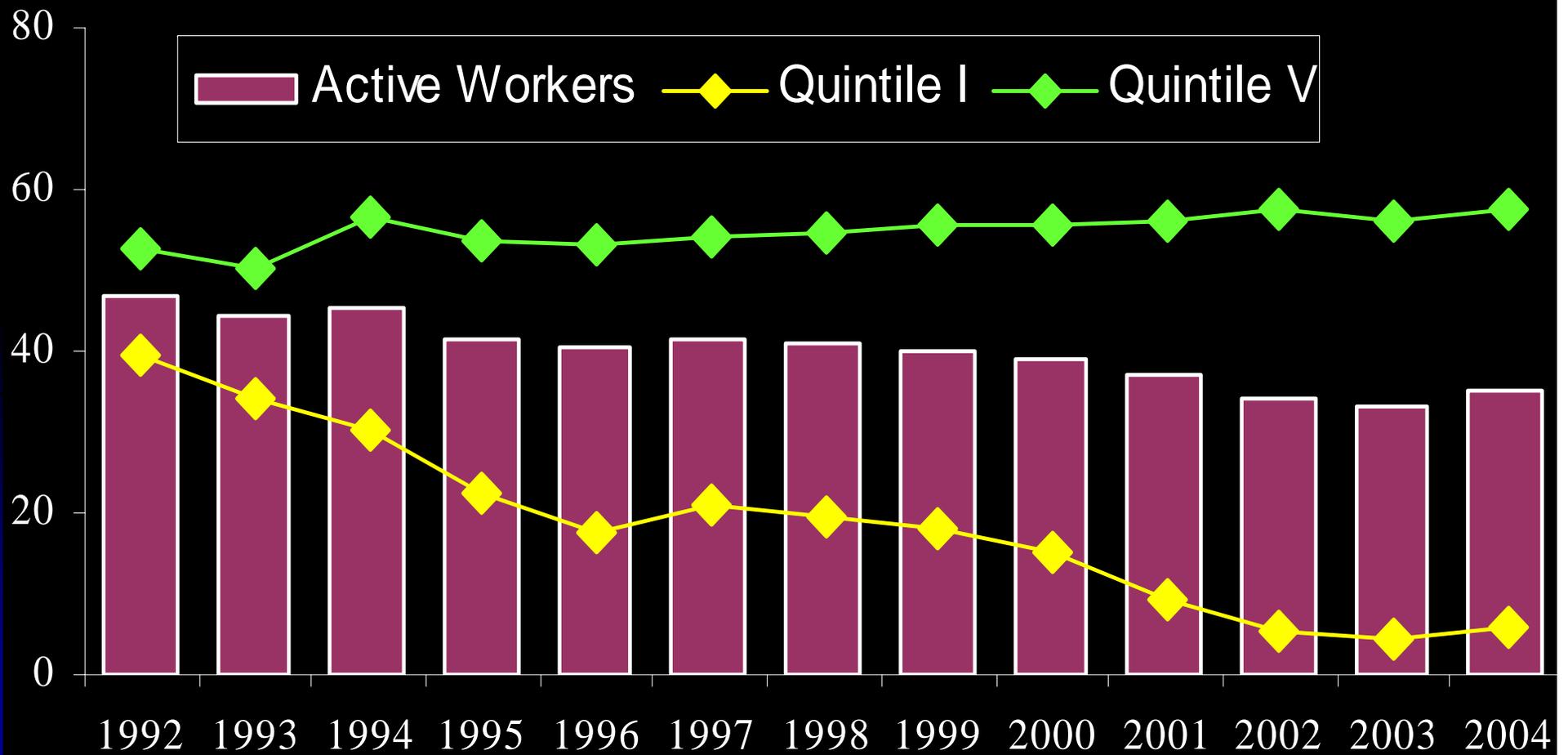


The reform impacts: Transition Cost

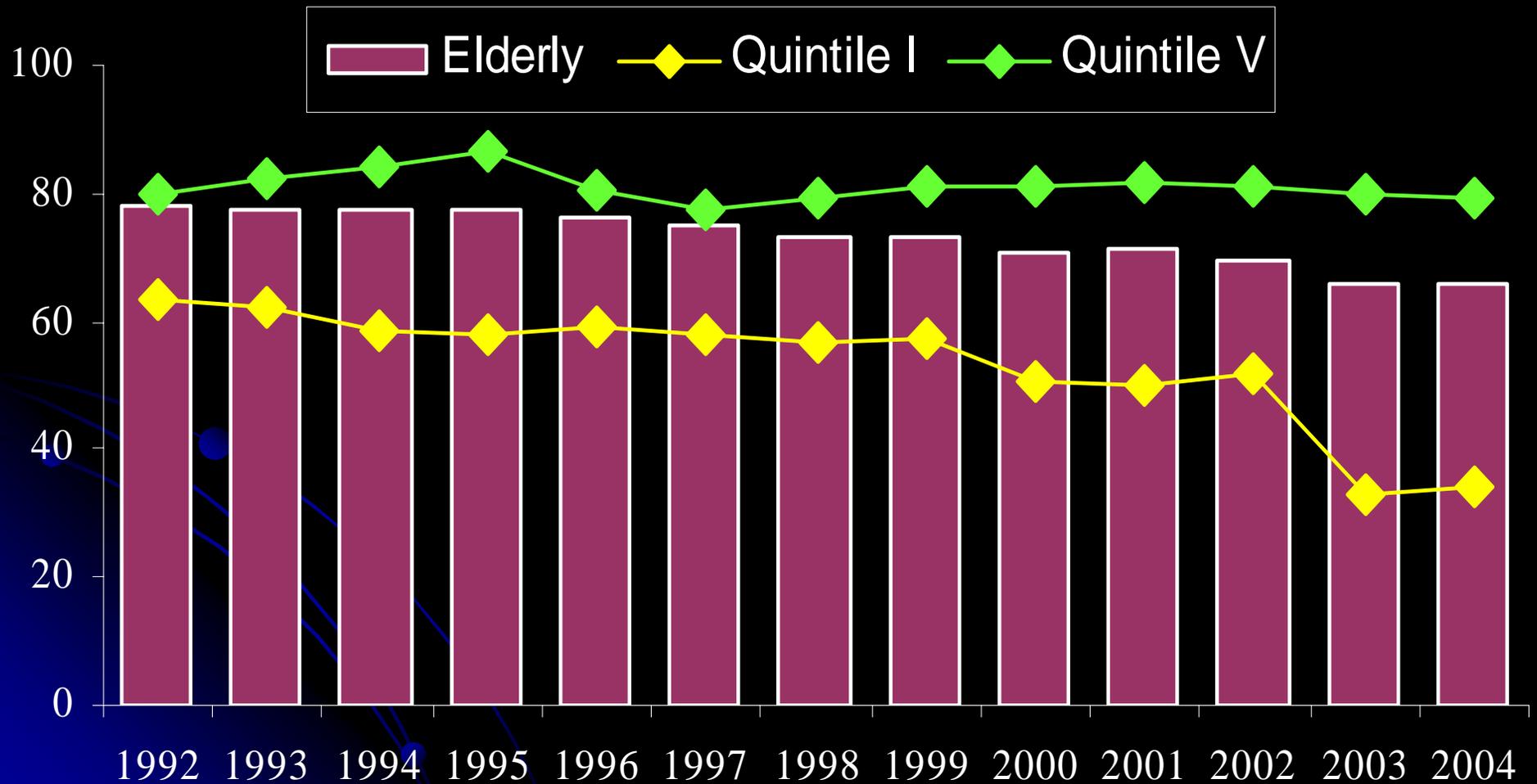
Transition Costs of Pension Reform. 1993-2001



The reform impacts: Coverage



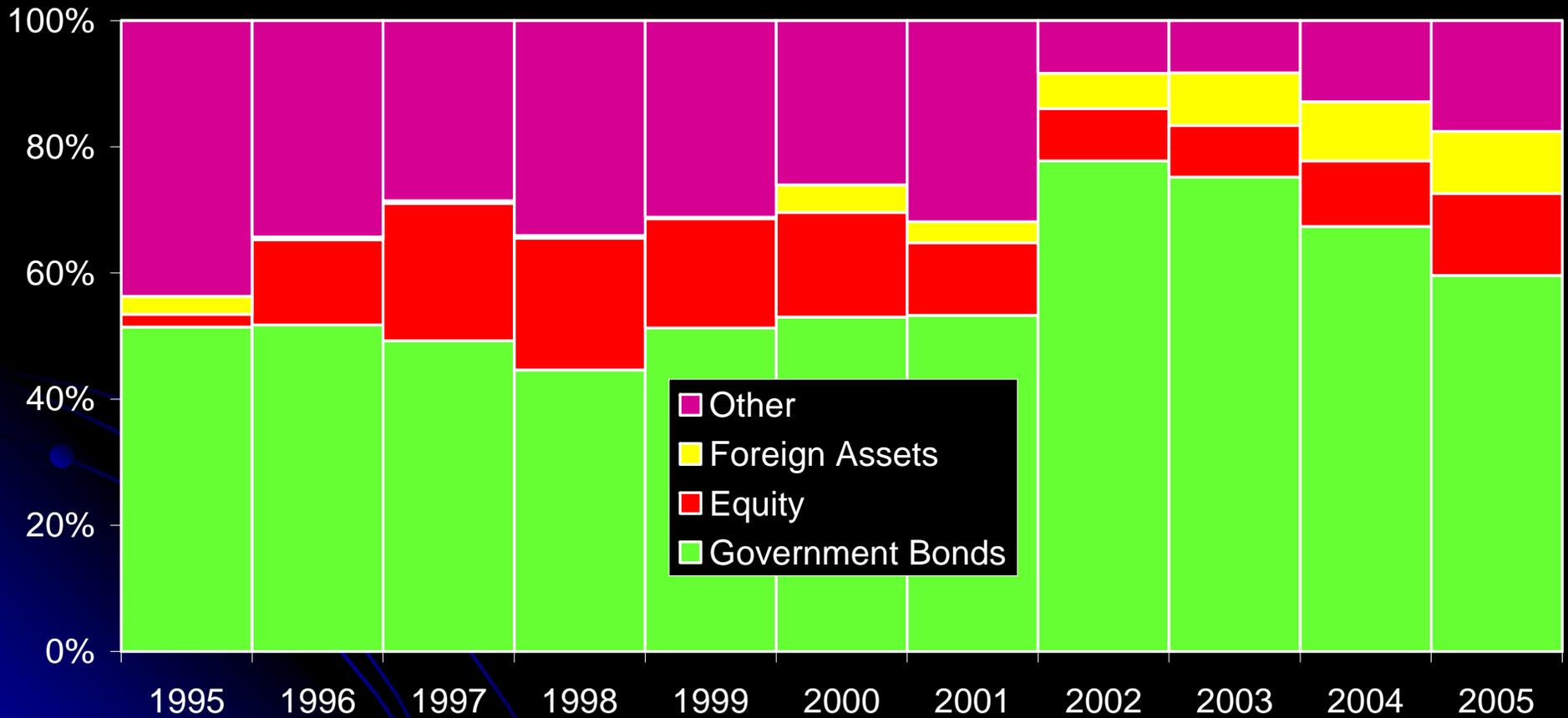
The reform impacts: Coverage



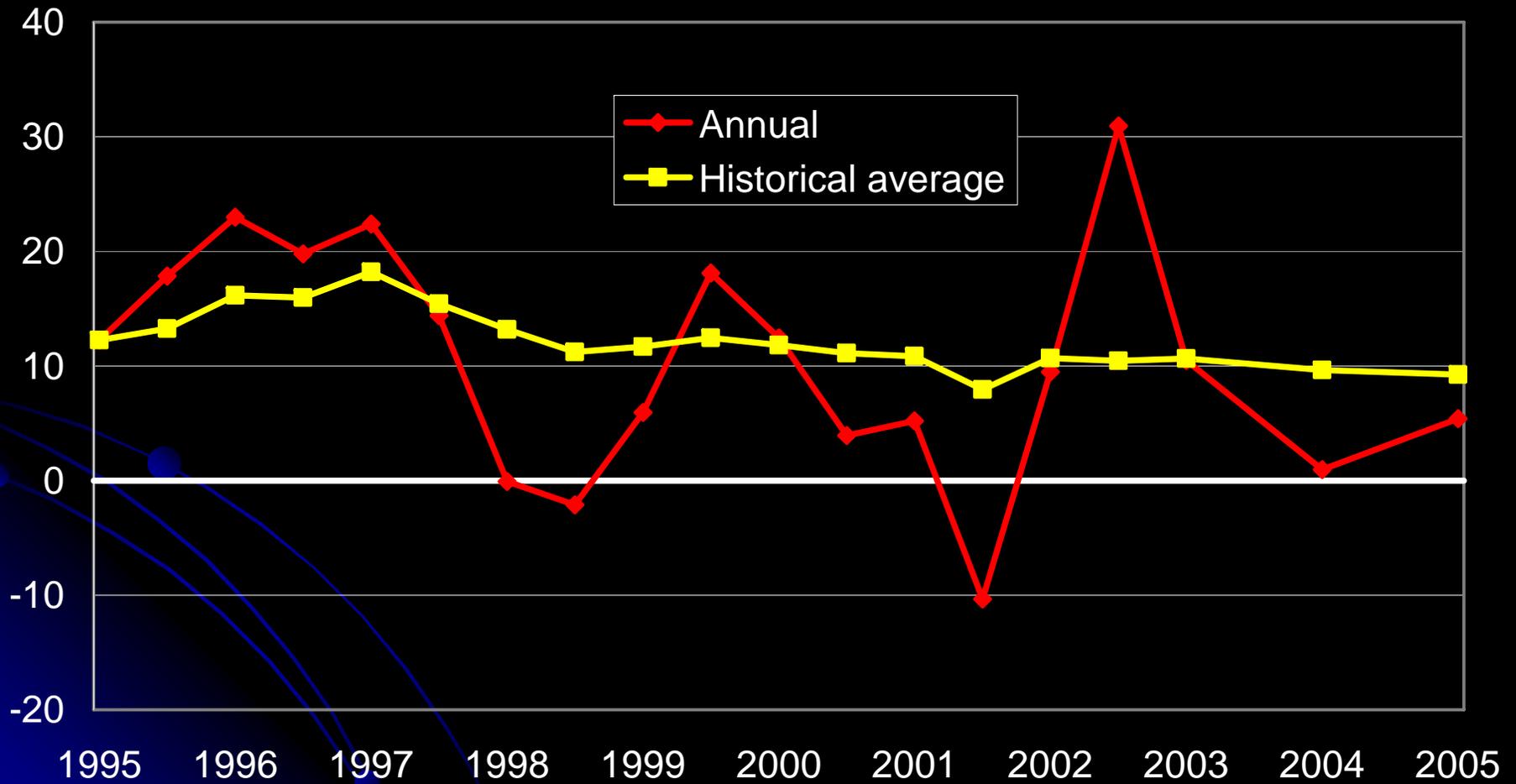
The reform impacts: Private market performance

- 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

Portfolio of pension funds



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.