



LABOUR AND SOCIAL JUSTICE

Conclusions and Recommendations of the Evaluation of Four Decades of Pension Privatization in Latin America: Promises and Reality

→ The fully-funded systems are evaluated based on reliable statistics and relevant literature on this subject.

→ The evidence and performance of private pension systems in nine Latin American countries are gathered.

→ Based on the conclusions of this analysis, a series of recommendations are presented.

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This document is a condensed version of the monograph with the same title. It basically consists of chapters of the introduction, conclusions, and recommendations of the study. The monograph can be found in Spanish in the online library of the Fundación Friedrich Ebert (www.fes-mexico.org/publicaciones).

INTRODUCTION

The controversy over fully-funded systems of privately administered pensions has existed for over three decades, but their antecedents are even older. The neoliberal ideas of Milton Friedman, Nobel Laureate in Economics and founder of the University of Chicago School of Economics, were antagonistic to the Keynesianism that had prevailed on the economic policy of nations since the Great Depression. In his most influential non-academic book, *Capitalism and Freedom* (1962), Friedman popularized the notion of the key role of the market (the state must refrain from intervening in the economy except when absolutely necessary; the market generates the best results and the state the worst failures), the basis of privatization and deregulation public policies. As an advisor to Margaret Thatcher in the UK and Ronald Reagan in the US, his ideas had strong support in these countries and spread to the world. A group of students in Chicago—many of them Chilean—were disciples of Friedman and hence called the “Chicago Boys”; they played a crucial role in Pinochet policies. The so-called Washington Consensus supported the neoliberal policies of structural adjustment in Latin America that were implemented by the IMF and the World Bank (Williamson, 1990).

In the 1980s, the IMF and the World Bank— hereinafter WB—began to condition structural adjustment loans to pension reform (i.e., in Costa Rica and Uruguay), becoming powerful external actors in several heavily indebted Latin American countries. In 1994, the WB (1994), headed by Estelle James, published a report on the problems of public pension systems worldwide, aggravated by aging, with policy recommendations aimed at multi-pillar systems that led to privatization.¹ That same year I published my first book that compared the structural pension reforms in Latin America, examining their assumptions and, between 1996 and 2000, I published five other works contrasting the position of international organizations in the debate—WB-IMF versus ILO-ECLAC—, comparing the characteristics of private pension systems in the region, identifying their failures, evaluating their performance, and measuring the high costs of the transition and the fiscal burden (Mesa-Lago, 1994, 1996, 1998a, 1998b, 2000a).

In 2001, Peter Orszag and Joseph E. Stiglitz (2001)—the latter received the Nobel Prize in Economics that year—identified ten “myths” in the public discussion on the benefits of privatization, which “had not been validated neither in theory nor in practice”; based on these myths, they developed a series of theoretical hypotheses that tore them down (p. 18, 42). Around the same time, the London School of Economics social security expert Nicholas Barr (2000), in an IMF paper, analyzed “myths, truths, and policy options” on pension reforms. In 2001, the WB published a book reproducing the above-mentioned essay by Orszag and Stiglitz, followed by a critical review by various Bank officials (including James) and by pro-privatization experts; only Peter Diamond—Nobel Prize in Economics in 2010—disagreed with the majority and supported the position of Orszag-Stiglitz (Holzmann et al, 2001). Considering the growing controversy, I published a paper in which I verified the Orszag-Stiglitz hypotheses with statistics from Latin American private pension systems (Mesa-Lago, 2002). Subsequently, ECLAC published in Spanish my monograph on structural pension reforms, proving that they contradicted several social security principles developed by the ILO (Mesa-Lago, 2004); the updated and expanded English version was published later (Mesa-Lago, 2008). In 2005, two WB officials and one OECD official published a book acknowledging many of the criticisms (including mine) that had been made on the private pension system in Latin America (Gill, Packard, and Yermo, 2005); I was the first to review this book (Mesa-Lago, 2005a) and was invited by its authors to comment on it in its presentation in Bogotá; however, the WB management board decided not to publish the Spanish version of that book. After 30 years of the reforms, I assessed them using comparative statistics from the nine countries (Mesa-Lago, 2009).

Between 2008 and 2010, three Latin American countries that had privatized their systems (Chile, Argentina, and Bolivia, in that order), as well as many Eastern European countries, implemented “re-reforms,” and I carried out the first comparison of them and of their effects (Mesa-Lago, 2012). In 2018, the ILO published a book on the reversal of pension privatization in the world to which I contributed with the case of Bolivia (Ortiz et al, 2017). In May 2019, the chairman of the International Organisation of Employers (IOE) sent a letter to Guy Rider, Director-General of the ILO,

1 Although the WB tried to apply the Chilean model and succeeded in several countries, others refused and introduced variants, as explained later.

claiming the book as biased,² and accusing its authors (of the Social Protection Division) for exposing personal opinions. Also, the IOE demanded that the book was not used as a reference for ILO technical assistance activities in the field of pensions. Director Rider replied to such letter stating that the ILO has, consistently, pointed out that individual accounts do not correspond to the social security principles and model established by ILO standards and that they can only be offered as a supplementary protection mechanism and that in no case should they replace public social security systems. At the 2019 International Labor Conference, several employers representing their countries reiterated their censorship of the book and its authors.

The FIAP (2020b) has just published a book making a critical review to the aforementioned ILO book (focused on Central and Eastern Europe and, to a lesser extent, on Argentina, plus half a page on Bolivia, and one page on Ecuador, Nicaragua, and Venezuela); I managed to get it when the monograph, basis of this abridged version paper, was virtually finished. The purpose of the monograph, therefore, is not to respond to FIAP book, as it is something that corresponds to the ILO. However, I will comment on some relevant aspects in the FIAP book, which does not directly disprove any of the main chapters on Latin America covered by the authors of the ILO book, and even omits any reference to them.

In the context of this controversy, and after four decades—reached in 2020—from the first structural pension reform in Chile, I wrote the monograph with the support of the Friedrich Ebert Foundation, which I have worked with as a consultant in Latin America since 1994. I integrate, expand, deepen, and update therein all my previous work developed on this subject for almost 30 years, reviewing, as well as, the main existing bibliography, and evaluating privatization promises made on the key aspects of social security, based on reliable statistics on the subject and on relevant academic literature. I undertake this difficult task on such a polarized topic with the utmost respect for opinions differing from mine, always striving to maintain academic objectivity, in the hope that this monograph will encourage a professional profound debate and that it will be useful to other countries in the world that are contemplating or that could consider making a reform of their pension systems, so that they may learn lessons from the diverse and rich Latin American experience.

2 In 2020, the *Federación Internacional de Administradoras de Fondos de Pensiones* (International Federation of Pension Fund Administrators: FIAP, 2020d) branded the book as “false and ideological information.”

CONCLUSIONS

A “public” pension system is characterized by a defined benefit (established by law), a pay-as-you-go (PAYGO) financing (or partial collective funding), and public administration, while a “private” system is typified by a defined contribution (assuming no change over time), fully-funded individual accounts, and private administration. Between 1981 and 2008, eleven Latin American countries, most of them sponsored by the WB, implemented structural pension reforms, which closed or substantially reduced the public system. On the contrary, a parametric reform maintains the public system, but introducing changes to attain a better financial and actuarial sustainability; i.e., increasing the retirement age, changing the pension calculation formula, adjusting benefits, or a combination of these measures. Structural reforms replaced, in whole or in part, public systems with “private” systems (although they may have a public component), the reforms were not alike because they adopted three models:

- a) Substitutive, which closed the public system and completely replaced it with a private system (Chile, Bolivia, Mexico, El Salvador, and the Dominican Republic);
- b) Mixed, which maintained the public system as a pillar and added the private system as a second pillar (Argentina, Costa Rica, Uruguay, and Panama); and
- c) Parallel, which kept the public system and added the private system, the two systems competing with each other (Colombia and Peru) (Mesa-Lago, 2008).

The structural reforms listed by the year of entry into force were as follows: Chile (1981), Peru (1993), Argentina and Colombia (1994), Uruguay (1996), Bolivia and Mexico (1997), El Salvador (1998), Costa Rica (2001), Dominican Republic (2003), and Panama (2008).

The shortcomings of the Latin American private systems led to four “re-reforms” that have eliminated or substantially changed the private system. Argentina (2008) and Bolivia (2010) closed the private system/pillar and transferred all their insured and funds to the public system. Chile (2008, in the first administration of Michelle Bachelet’s presidency) and El Salvador (2017) maintained the private system; the Chilean re-reform improved coverage, social solidarity, gender equality, and financial sustainability, while

the Salvadoran re-reform transformed the private system into a mixed one with a PAYGO component.³

Also, the re-reform proposals in Colombia and Peru are being examined, and Mexico’s substantial reform proposal and Brazil’s parametric reform are reviewed.

A. PERFORMANCE EVALUATION OF PRIVATE PENSION SYSTEMS

The main objective of the monograph is to evaluate the performance of the nine Latin American private pension systems within the last four decades, since the Chilean system came into force in 1981 and, especially in 1999-2019 (period of time in which we have comparable statistics in all countries),⁴ based on their most significant aspects. These aspects correspond to the fundamental principles of social security approved since 1919 by conventions and recommendations of the International Labor Organization—ILO—through the tripartite vote of representatives of workers, employers, and states at the International Labor Conference (see Mesa-Lago 2008). Each aspect/principle will compare the promises made by reformers (or the lack of pronouncement on any principle) with the reality of reliable statistics from the nine countries and from more than 200 bibliographic sources.

Performance evaluation of the nine private pension systems within the last four decades, according to the selected aspects/principles, is as follows:

1. Social Dialogue.

Most structural reforms were not preceded by a social dialogue. Two of these reforms were imposed by authoritarian regimes with no social dialogue, whereas two others were approved under a democratic regime, but with significant manipulation and practically no social

3 Currently in Latin America there are eleven public systems: Argentina, Bolivia, Brazil, Cuba, Ecuador, Guatemala, Haiti, Honduras, Nicaragua, Paraguay, and Venezuela.

4 Most statistics data are taken from the biannual Statistical Bulletin of the Asociación Internacional de *Organismos de Supervisión de Fondos de Pensiones* (International Association of Pension Fund Supervisory Agencies: AIOS).

dialogue. The remaining reforms were developed under democratic regimes—most of them based on lengthy and heated debates, some manipulation, and a varied social dialogue approach.

2. Coverage.

Coverage was measured by household surveys, which are conducted uniformly in all countries, based on contributing insured, and considered the most accurate method. In contradiction to what reformers promised, economically active population (EAP) coverage dropped in all private systems after the reform started; then, it grew. However, in the five less socially-developed countries, it only covers 21% to 38% of the EAP (ILO minimum standard states a minimum coverage of 50%) and it is very difficult to be extended. Reformers made no promises on the older adult population (65 years and over) coverage by contributory and non-contributory pensions. Such coverage increased in all countries, mainly owing to the extension of non-contributory pensions by the state—still five private systems are below the adult-coverage average of 71% for the entire region, including public systems (one private system lacks non-contributory pensions and the coverage of another system has come to a halt). The analysis determining whether the private system has had any impact on coverage was negative, as no difference was found when comparing it with the coverage of public systems, particularly regarding older adult population; the level of economic development of the countries is what seems to determine coverage.

Today, supporters of structural reform are trying to justify EAP's low coverage by arguing that this is not a problem of the private system but of an exogenous factor: labor force informality; although reformers predicted that the reform would extend formalization. It was shown that the design of the reform was a factor in the low coverage since the private system has been unable to face the exogenous obstacle. On the contrary, the analysis of groups that are difficult to incorporate—most of them informal groups (self-employed workers, domestic-service employees, employees of micro-enterprises, and agricultural workers)—indicated that many countries have developed successful public policies to extend coverage to such groups, instead of waiting several generations so that formalization may spread as the only way to increase the EAP coverage.

3. Social Solidarity and Gender Equity.

Reformers neither addressed social solidarity nor gender equality. The principle of social solidarity was replaced by the principle of equivalence: the pension is based on the fund accumulated in the individual account of each insured; therefore, there are no transfers between generations, income groups, and genders; if solidarity mechanisms are available, they are external to the private system, financed by fiscal authorities. In contrast to the neoliberal idea that the state must play a subsidiary role, it has been fundamental and, without its support, the

private system could not exist: the state makes affiliation to the system mandatory, finances the cost of the transition from the public to the private system, sets a public body that regulates and supervises the private system, introduces or expands non-contributory pensions and funds them, makes contributions to improve low contributory pensions up to a limit at which such contribution ends, and finances inclusion measures in the contributory system intended for certain excluded groups. Also, reforms included anti-solidarity elements, such as the elimination of the employer's contribution both in Chile and Peru. Therefore, the worker makes all contributions in violation of the minimum ILO standard that the worker must not contribute over 50% of the total contribution and, in the majority of countries, the worker also pays fees and premiums. Reforms excluded powerful groups with separate schemes providing generous benefits and receiving fiscal subsidies, such as the armed forces (in Chile they implemented the private system, but were excluded from it), as well as public servants, congressmen, judges, teachers, etc. provoking a heavy tax burden. The average pension of the Chilean armed forces ranges between 3.2 and 7.3 times the average pension of the regular private system and the advance pension and, compared to the non-contributory pension, between 6.4 and 14.6 times; military pensions are funded 90% by fiscal authorities and take 0.9% of the GDP, while non-contributory pensions take 0.7% from the GDP; 69% of Chileans oppose the armed forces having a system different from the rest of workers. Finally, in low-coverage countries, the majority of the uninsured population finances—through consumption taxes, like VAT—part of the coverage of the insured minority and, in some cases, part of the transition costs.

Gender discrimination results from the labor market and the pension system itself. Although gender inequalities prevail in both private and public systems, the latter are relatively more neutral or positive, as they grant the minimum pension with fewer contribution years, apply the pension formula to the last years of working life, and use unisex mortality tables. Private systems accentuate gender inequalities: most reforms increased the years required to obtain a minimum pension, being more difficult for women to qualify (the average number of years required are 24.3 for private systems and 17.6 for public systems); in addition, contributions are paid throughout the entire working life, and gender-differentiated mortality tables are applied, all resulting in lower pensions for women. EAP female coverage rose slightly between 2009 and 2018 but dropped in two countries and, in the five least developed countries, it is below the 50% stipulated by the ILO minimum standard. Coverage of older women increased more than that of the EAP and did not decrease in any of the nine countries (however, in two of these countries, it only covers 12% to 17%). This was mainly due to the extent of non-contributory pensions financed by the state and benefiting women. In two countries the state compensates women for the time they spend raising their children.

4. Sufficiency of Benefits.

Reformers promised that the amount of the private pension would be suitable to maintain the pre-retirement standard of living, because very high replacement rates (RRs) would be paid—“up to 70% of salary at the end of active life,” and would be higher than the pensions of the public system. These promises have been disproved by RR calculations conducted by the IADB for 18 Latin American countries (eight with private systems and ten with public systems), posting an average RR of 64.7% in public systems and of 39.8% in private systems. In countries with DB (either a pure scheme or the remainder of the closed public system) RRs are higher than the minimum of 45% recommended by the ILO, while the RRs of four private DC systems are lower than such minimum standard (including Chile with 39%). The three mixed systems including a DB pillar—as well as the public system in the two parallel models—go far beyond the minimum standard; only RRs of two public systems are below said minimum standard, and Haiti is one of them. Similar calculations were obtained by the OECD, which includes the Dominican Republic (excluded in the IADB comparison) having the lowest RR (23%) among 19 countries.

Recent studies in private systems confirm low RRs, and also prove that the insured will face one of the following two problems: only 27% to 28% of the insured in the private system will receive a pension compared to 59% in the public system; and only 30% of those insured in the private system between 51-60 years of age will receive a higher pension than those insured in the public system. The Mexican government has admitted that two promises of the structural reform have not been fulfilled: the insured entitlement to a minimum pension is very poor and the amount of pension is lower than expected. In Chile, 95% of affiliates in the private system will not build up the required savings in individual accounts, not even if they work for decades and have a proper salary, because external factors—such as capital returns of pension funds and the ups and downs of the stock market—affect pensions. These factors prevent people from reaching a pension higher than US\$389 per month; some men aged 60-65 years will receive either an annuity of US\$51 per month or a scheduled retirement of US\$64, while women in this age range will receive even less.

Partly due to the low RRs of private systems, made worse by the economic crisis caused by the pandemic, a large number of countries is approving the withdrawal of funds from individual accounts before retirement; i.e. in Peru 95.5% can be withdrawn, another 25% for housing and 25% for those having a small balance in their individual accounts, as a result of which the fund has been virtually vanished. In four other countries (including Chile) an amount ranging between 10 and 100% can be withdrawn under different circumstances.

One promise that has been kept is the principle of equivalence: private systems have strengthened the ratio between

contribution and the amount of pension. However, a minimum RR of 45% could not be attained, and then social solidarity and gender equity were sacrificed.

4. Administration and Reasonable Administrative Costs.

Reformers promised that strong competition among pension fund administrators would increase efficiency and reduce administrative costs, as the insured—having freedom of choice—would join and transfer to the best administrators, i.e. those charging lower fees and paying higher pensions. Said freedom of choice, at the time of the reform between the public and private system, did not work or was quite limited in most countries: in three countries all the insured were forced to change to the private system, in others all labor market newcomers were forced to join such system. Also, there was an increase in the public system contribution or incentives were created to change to the private system. Often employers were the ones who decided to change administrators or pushed their employees to switch to the private system. Only in Colombia and Peru the insured could freely choose between the two systems. Transferring to the private system was also prompted by promises made by reformers, promising that there would be better pensions and lower administrative costs. These promises have not been fulfilled.

More importantly, in most countries competition has not worked at all. The number of administrators has significantly decreased due to mergers and closures; concentration in the two largest administrators has grown or stagnated in the majority ranging between 68% to 100% in five of them (there is a duopoly in El Salvador). The annual percentage of affiliates changing administrators shows a declining trend and ranges between 0% to 1% in five countries and between 2% to 3% in another two. The high cost of freedom of choice for pension fund administrators led to restrictions in many countries, reducing the number of times they can be changed (i.e. once a year or every two years) and encouraging industry collusion. Administrative costs are high and typically steady: between 23% to 30% of the deposit in five countries, reducing the future pension. The Mexican government has admitted that administrative costs are higher than international benchmark costs. Profit as a percentage of net patrimony ranges between 20% to 48% in four countries and between 12% to 16% in another four. Said profit was steady or increased in four countries during the global financial crisis of 2007-2008. In Chile, salaries paid to executive officers amounted to US\$26 million in 2019, while allowances amounted to US\$4 million, compared to an average annual old-age pension of US\$1,323.

Before the structural reforms were implemented, virtually all public systems in the region had tripartite representation (workers, employers, and state) in pension administration. The reforms fully transferred pension management to private for-profit companies, with no representation of workers (with one exception) who are the owners of the funds. In

mixed systems, tripartite participation is still present in the DB public pillar, as well as in the parallel system in Colombia, but not in the private pillar/system. There is also no participation of workers and employers in the regulation, administration, and control of supervisors of private pension funds—a role virtually exclusive to the state, except for one country. The insured does not participate in the decision on the investment of the pension funds; private administrators do this. On the contrary, all public pension systems maintain tripartite representation except one system, and retirees and pensioners do participate in three countries.

A positive feature of the reform is that pension fund administrators improved the information provided to the insured and reduced the time for processing pensions. However, there is a great lack of knowledge among the insured preventing them from making informed decisions, i.e., how to choose the pension fund administrators offering the lowest administrative costs, the highest returns, and paying the best pensions, as well as how to choose among multi-funds and retirement plan options.

5. Financial and Actuarial Sustainability.

Reformers made multiple promises regarding financial-economic aspects of the private system: The ownership of the individual account and the private administration of the system will encourage the insured to contribute promptly to their individual accounts and reduce evasion; the general fund and the invested capital will grow posting high capital returns; a good portion of the investment will be in domestic stocks, and aging will adversely impact the long-term sustainability of public systems, but will not affect private systems due to their design and fully funding. Contrary to the first promise, the proportion of contributing affiliates decreased in all countries after reaching a zenith; based on the first year available, this proportion also declined or stagnated, except in Chile; the worst falls took place in El Salvador (42 percentage points) and Mexico (28 points). One of the reasons that led to this drop was employer evasion and payment delays, which was ratified in four private systems. Confirming a reform promise, the capital accumulated in the fund has actually grown, although with notable differences among countries: in Chile and Mexico the capital exceeds US\$200,000 million, but is less than US\$12,000 million in four countries, while as a percentage of GDP it amounts to 80% in Chile, but less than 25% in seven countries; however, the administrators control a very high percentage of GDP, granting them great power. Voluntary saving has not been successful: in five countries it ranges from zero to 0.4% of GDP and in another two 2%; nevertheless, in the Brazilian public system, voluntary savings funds amount to US\$366,756 million and 20% of GDP—24 times the sum accumulated in all private systems.

In most private systems, the promise that structural reform would diversify the investment portfolio has not been met: concentration on the two major instruments range between 80% to 90% in four and between 62% to 76% in the

other five. The largest investment is in public debt, which ranges between 61% to 82% in four countries. This was typical in old public systems and still exists in four private systems, as they lack a developed stock market with enough traded instruments. The second largest investment is in foreign instruments: From 36% to 45% in three countries including Chile because there are not enough national instruments traded on the stock market, which was established at the end of the 19th century (diversification is appropriate, but up to a certain limit where volatility risk is very high). Investment in domestic stocks—which reformers predicted would result in a great benefit—is zero in four countries and ranges between 6% to 16% in the other five. The gross real capital return on the investment was very high between the creation of the system and 1999 (due to the scarcity of instruments, which inflated its value); during the 2007 financial crisis this capital return dropped between 19% to 26% in three countries and between 2% to 9% in another four. With the recovery between 2010 and 2019 (the longest in history), the capital return grew, but in such period, it did not recover the average capital return achieved from the creation to 1999 in five countries and matched it in two countries. Only in 2019 the initial capital-return average was exceeded in five countries, but in El Salvador and Uruguay it was still lower. If the net real capital return (deducting administration fees) were published, it would be even lower than the gross capital return.

The analysis of financial-actuarial sustainability demystifies four key arguments adduced by reformers:

- a) The “implicit debt” of public pension systems is defined by the WB, strictly based on private insurance, as the present value of all future benefits of current and future pensioners, less the amount of the initial reserve of the system—a definition that was used to replace public pension systems with private systems as the only way to balance them in the long term. The ILO, according to the public finance approach, adds at the end of the previous WB sentence: *“less the value of all contributions made by current and future insured”*, i.e., by means of periodic parametric reforms, either the contribution can be increased or the expense reduced in order to balance the public system (for example, increasing the retirement age or modifying the formula of the pension).
- b) The “defined contribution” (DC) is a self-proclaimed key feature of private systems because, in theory, its contribution should not be increased over time as in public “defined benefit” (DB) systems, but currently supporters of private systems state that in order that DC systems keep existing, their contribution will have to be increased, as happens with DB systems.
- c) Contrary to the reformers’ claims, the “fiscal cost of the transition” of making explicit the implicit debt resulting from converting public systems into private, has been considerably higher than the initial projection. It has taken longer than expected and it will grow in the next few years in most countries, leading to severe fiscal problems.

d) It is argued that “Aging makes public systems unsustainable, but does not affect private ones,” but now private system supporters argue that they are facing the challenge of an aging population, as an increasing number of pensioners have to be financed for even longer periods. Therefore, it is necessary to increase the retirement age. However, to maintain the equilibrium, public systems must implement periodic parametric reforms, without which these systems would not be sustainable in the long term considering the system maturity and aging of the population, as similarly occurs with private systems.

A recent study conducted by ECLAC on public pension spending concerning the GDP in this region, including seven out of nine private systems (as well as Argentina), has ranked them according to their financial sustainability, and based on indicators such as aging and elderly coverage. Using these indicators and adding others (generosity or harshness in benefits—such as RR and retirement ages—, existence or non-existence of multiple generous special regimes, size of the contribution regarding spending, and design flaws in structural reforms), the situation of five private systems of various types is analyzed, and it is specified whether a parametric reform has been implemented or not:

Uruguay has the highest pension spending as it is the most aged country, with the most mature system and several special regimes, high coverage and generosity of benefits (including very low retirement ages and an RR of 72%). Therefore, despite the very high contribution, the public pillar has experienced a deficit funded by fiscal transfers. Nevertheless, such deficit was reduced between 1982 and 2016 and it is expected that its decrease will continue until 2025, but then will grow to 2.5% of GDP in 2065, which is manageable; currently, a commission is studying measures to improve the equilibrium.

Costa Rica is less aged than Uruguay and its system is not as mature. Costa Rica’s system has only one special regime (judiciary), and the coverage is similar, but the RR is much higher (90%) and, although the retirement age is five years higher to the Uruguayan, there is an expensive early retirement allowing less age and less years of contributions, which is a key cause of the increase in pension spending. On the other hand, its contribution is the third lowest among the nine systems. Several actuarial studies (most of them based on the WB’s approach explained above) have projected a short-term reserve disequilibrium and depletion; to face it, parametric reforms have been implemented: contribution increase and diversion of income from another entity, as well as a proposal to eliminate or substantially reduce early retirement, which would extend the equilibrium until 2035 (before that, another parametric reform must be carried out); the special regime of the judiciary enjoys very generous benefits and has been reformed: increasing the retirement age, reducing RR, setting a cap on pensions and increasing contribution.

Panama ranks in an intermediate position among the nine countries, its level of aging is moderate, and the system is the least mature among the nine countries. On the other hand, its coverage is the fourth highest, there are multiple special regimes, RR is 88% (higher than Uruguay), retirement ages are low, the state makes a contribution to individual accounts, it has the third lowest contribution (lower than Costa Rica’s and half of Uruguay’s), and there is high evasion and payment delay. The old public system was closed and stopped receiving contributions, but it pays 99% of all pensions, thus generating a growing deficit. In 2003, the ILO recommended increasing the total contribution by 4 percentage points for 2013, which was actually done, but it was necessary to continue gradually increasing it another 10 points until 2050, which has not been done yet, therefore, it is projected that the reserve will be exhausted in 2024; there is no information on the special regimes, but it is known that they are experiencing an actuarial disequilibrium. As of November 2020, the necessary parametric reform had not been announced.

Mexico has a moderate aging, a system that has not yet matured, relatively low coverage, 64% of the insured will not receive a pension, and a very low contributory pension. Nevertheless, there are over 1,000 special regimes with generous benefits and the insured affiliated with the main system (IMSS), at the time of retirement, may choose between a pension based on the formula of the closed DB public system (RR of 107%) and the pension resulting from the amount accumulated in the individual DC account (RR of 44%). Therefore, the vast majority will choose the first pension option that is unsustainable (in 2021 the first cohort of the reform begins to retire). As a result, public pension spending has grown 4.8 percentage points more than the GDP growth and will continue to increase. A reform bill in congress introduces fundamental changes that could constitute a re-reform because the private system is maintained but improves most of the principles of social security: extends the coverage of non-contributory pensions and the access to the minimum contributory pension guaranteed by the state; it expands social solidarity because the state contribution and its social quota are reallocated to improve the minimum pension of the insured with the lowest income, and it also increases (by 8.7 percentage points) the employer’s contribution to increase access to and the amount of pensions. Although there are no specific provisions on gender, the previous measures would favor women through non-contributory pensions and through the increase of lower pensions; it improves the adequacy of benefits with an projected 40% increase in the average replacement rate, although it is below the ILO minimum standard; it reduces the fee paid to the administrators pursuant to international benchmarks, and states CONSAR’s obligation to send annual reports, as well as another ten years after the reform implementation. It has not been reported whether the necessary actuarial study has been conducted to guarantee the financial-actuarial sustainability of the new benefits based on the new income, and no budget items have been specified to fund such expenses. The bill admits that two promises of the

structural reform have not been fulfilled: the lack of access to the minimum pension by the majority of the insured and a lower than expected pension amount; it also admits that the administrative cost is higher than the international cost level; it suggests that the aging process affects the private system, and implies that the defined contribution must be increased to improve low pensions.

The Dominican Republic has an incipient aging, the second youngest private system, the second lowest coverage of the older adult population (because it has not implemented the mandate of the structural reform to establish the non-contributory pension) and it never issued the recognition bond. On the other hand, the retirement age of men is the lowest among the nine countries, there are numerous special regimes that are unbalanced, there is a debt for evasion and payment delay equivalent to 82% of the pension fund in individual accounts, the lowest contribution and the lowest gross real capital return of the nine countries. A parametric reform in 2020 implemented insufficient measures focused on reducing administrative fees, but it did not approve the increase in age and waived the debt surcharges.

B. EVALUATION OF THE RE-REFORMS IN ARGENTINA, BOLIVIA, CHILE, AND EL SALVADOR

The re-reforms in Argentina (2008)⁵ and Bolivia (2010)⁶ closed the private pillar/system and transferred all the insured and funds to the public PAYGO system, while the re-reforms in Chile (2008) and El Salvador (2017) maintained the private system; the Chilean re-reform improved coverage, social solidarity, gender equity, and financial sustainability, while the Salvadoran re-reform focused on reducing the fiscal deficit. The first three re-reforms improved several failures of the structural reforms, but not the Salvadoran one. Here is a summary of the evaluation results:

1. Social Dialogue.

The most extensive dialogue took place in Chile, where the commission in charge of the process had representation from all sectors involved and 92% of its recommendations were incorporated into the reform law. The Bolivian government conducted negotiations and entered into an agreement with the most important union federation, but the employers' federation and other relevant sectors were not consulted. A wide debate was held in the National Assembly and the law was approved by a two-thirds majority of the

government. In Argentina there was little public discussion and few debates in Congress; the law was quickly approved by a significant majority of the government, supported by the two largest union federations, the opposition of employers and AFJP and with no input from experts, civil society, and other stakeholders. El Salvador had the least dialogue. The government reached an agreement with other political parties to prepare an integrating proposal that was approved with a wide margin in the Assembly.

2. Coverage.

The impact is measured between 2009-2010 and 2017-2018, except for El Salvador where we only have 2018. Chile incorporated self-employed workers on a mandatory but gradual basis and made them eligible for other benefits that they previously lacked; EAP's contributory coverage grew seven percentage points, but there was a slight decrease in the coverage of self-employed workers; the coverage of the older adult population by contributory and non-contributory pensions expanded by five percentage points due to the creation of the *Pensión Básica Solidaria* (Basic Solidarity Pension: PBS) covering 60% of the poorest households. Bolivia reduced the retirement age by five years for both sexes, as well as the years of required contributions, which significantly expanded the number of retirees; EAP coverage either grew five points or stagnated depending on whether administrative figures or surveys are used; self-employed workers coverage increased one point, and that of the older adult population regarding contributory and non-contributory pensions (mostly for the latter) reached 98% in 2008 due to the expansion of Renta Dignidad, but it remained static afterwards; nevertheless, it is the highest in the region. Argentina approved measures, before the re-reform, in order to extend contributory coverage allowed the insured to retire without fulfilling the 30-year required contributions, also to self-employed workers who lacked complete documentation, but EAP coverage remained static; older adult coverage increased by six percentage points (2007-2009) but had lost them in 2018. The Salvadoran re-reform took no action, hence failing to comply with the mandate of the 1996 structural reform to extend coverage to groups difficult to incorporate; coverage cannot be measured because there is only one year for observation, but statistics show that in 2018 both coverages were below the zenith previously reached.

3. Social Solidarity and Gender Equity.

Social solidarity improved in Argentina and Bolivia when the private pillar/system that lacked social solidarity closed and when all the insured were transferred to the public system with intergenerational solidarity. Likewise, Argentina extended the contributory system for lower-income groups and expanded social inclusion of the older adult population to mothers as for non-contributory pensions. Bolivia universalized and reduced the age for Renta Dignidad; it created the semi-contributory pension, as well as a solidarity fund and a solidarity contribution imposed on the employer and high-income insured. The Chilean

5 The discussion on the Argentine re-reform in FIAP (2020b) covers less than four pages, while the ILO chapter on such subject (Bertranou et al., 2018) covers 23 pages and its conclusion on the risk of the system's unsustainability is similar; FIAP ignores that chapter.

6 FIAP (2020b) explains, in only half a page, what it does not consider a re-reform in Bolivia, while my chapter in the ILO book (Mesa-Lago, 2018a) covers 42 pages on the subject, where I prove that it is a re-reform. I also analyze the changes in coverage, social solidarity, gender equity, and administration; I document the risk of financial insolvency in much greater detail than FIAP does; FIAP actually ignores said chapter.

re-reform infused social solidarity in the private system, thus creating two solidarity benefits financed by the state: the *Pensión Básica Universal* (Universal Basic Pension: PBU) and the *Aporte Previsional Solidario* (Solidarity Pension Contribution: APS) complementing the contributory pension of those with low incomes and generating progressive effects.⁷ The Salvadoran re-reform of 2017 neither extended nor improved the non-contributory pension, but created three new benefits for the insured that are not entitled to a regular pension (the BET, the BEP, and the BL) although only 2% of the insured requested these benefits and 98% preferred the refund of the balance; the *Cuenta de Garantía Solidaria* (Solidarity Guarantee Account: CGS) aimed to reduce the fiscal deficit and it finances the new and old DB benefits with a contribution from employers and another one from retirees; despite the adjective “Solidarity”, the account has not improved this aspect of the system. Separate regimes still exist (particularly those of the armed forces, except in Costa Rica) and some were added in Argentina and Bolivia.

All the re-reforms, except for the Salvadoran one, have partially compensated insured mothers for the time they spend raising their children: Argentina granted a non-contributory benefit when they have seven or more children and lack resources; Bolivia reduced one year of contributions for each child born alive; and Chile granted a bonus for each child born alive that accrues annual interest and becomes effective at the time of retirement (in case of divorce, a judge can order the transfer of up to 50% of funds accumulated in individual accounts during marriage from one spouse to another, which is usually the woman). All three countries have increased female participation in pensions, particularly due to the expansion of non-contributory pensions where they now have a majority. Gender-differentiated mortality tables were eliminated in Argentina, Bolivia, and El Salvador, but continue in Chile. The Salvadoran re-reform did not introduce other measures to improve gender equity. Important gender gaps still exist in all countries, i.e., the average female RR is much lower than that of men and a smaller percentage of women than men will be able to retire as they do not have the required years of contributions.

4. Sufficiency of Benefits.

All re-reforms improved benefits, although to varying degrees. Argentina significantly increased the maximum and the average amount of contributory pensions, as well as the minimum pension and the non-contributory pension. This reduced the percentage of poor older adults by 25 percentage points between 2003 and 2009, but in 2020, due to the pandemic and crisis, the general average RR was 55 percentage points below the *canasta básica* (minimum basic breadbasket of goods) for women and 38 points for

men. Bolivia maintained the contributory regime with individual accounts, but added a semi-contributory regime with a fiscal solidarity subsidy as well as a non-contributory regime fully funded by the state; the *Renta Dignidad* beneficiaries almost doubled between 2007 and 2012 and 83% of them lacked another pension; the monthly sum is very low, but it is the only source of income that half of the poor receive. In Chile, the number of PBS and APS beneficiaries doubled in 2008-2012, reducing poverty by three points among the older adult population; the value of the PBS is 50% higher than the previous non-contributory pension and increased income by 72% for those insured in the poorest quintile; the APS also raised the level of contributory pensions, although the RR is still very low.⁸ As mentioned above, El Salvador added three new benefits but set a limit of US\$2,000 on the contributory pension, which did not exist before; also, the deposit in the individual account of the insured was reduced from 10% to 8% and the resulting difference was transferred to the CGS. Three re-reforms maintained or improved the indexation of pensions, however, in El Salvador they are still subject to the government's discretion.

5. Efficiency and Reasonable Administrative Expenses.

In Argentina and Bolivia with the transfer to the public system, competition disappeared. Argentina removed all fees and the premium; the state agency that manages the public system may not impose fees—there are no figures on its administrative expenses. In Bolivia, the two *Administradoras de Fondos de Pensiones* (Administrators of Pension Funds: AFP) are still collecting fees, managing individual accounts, investing funds, and paying pensions even after the *Gestora Pública* (Public Manager) was founded. Chile tried to stimulate competition through: a biennial bid that assigns new labor force entrants to the AFP that offers the lowest fee, which is also applied to previous affiliates (but most of the insured is still affiliated with the two main AFP, despite they charge the highest fees), the authorization of banks to manage individual accounts, substitution of the selection of commercial insurance companies from a bid by each AFP to a collective bid including all, creation of a new AFP, which resulted in less concentration for the two main AFP and in more annual transfers. It also set a Pension Education Fund to educate people on the pension system, as well as centers to answer public inquiries and help the insured in claiming benefits and making decisions.⁹ Tripartite representation (workers, employers and state) was not restored in any country, but Argentina established an advisory board and Chile a commission of users to monitor the re-reform—none of these bodies has decision-making power. El Salvador ordered that the risk committee and a (not yet established) new actuarial committee are made up, in addition to the government representatives, by one

7 A 2019 law increased the amounts of the PBS and APS by 20%; a bill in congress imposes a 6% contribution to the employer to improve lower pensions plus an increase in fiscal support to improve low RRs for women and expand solidarity benefits.

8 A law that was passed in 2019 increased the PBS and the APS benefits.

9 The bill in congress reduces AFP' brokerage fees, prohibits fees for mutual fund investments, and imposes a limit on fees.

worker and one employer representative. The Salvadoran re-reform took no action to increase competition between the two AFP that hold a duopoly.

6. Financial-Actuarial Sustainability.

The contribution was kept unchanged in Argentina at 21%, the highest percentage in the region after Brazil and Uruguay, but after 2007 the employer contribution was reduced in order to increase employment. In Chile it remained at 13.8%, but the disability and survivor premium were transferred to the employer who must pay 6% if pending bill at congress is approved. Bolivia increased the total contribution to 17.4%, which could reach 32.7%, the highest in the region. El Salvador raised the contribution to 15% and imposed a contribution to retirees and pensioners. In Bolivia the insured pays almost three times the amount contributed by the employer and in Chile the insured pays 86% of the total contribution; both countries violate the ILO minimum standard stating that the worker must not pay more than 50% of the total contribution.

The fund's capital, between the year before the re-reform and 2020, doubled in Chile, amounting to US\$215,400 million in 2019, but dropped 33% in March, in the midst of the crisis, and then recovered in September, although it was still 4% below the zenith; with respect to the GDP, it dropped from 80.8% to 72.9%, but then rose to 81.2% respectively in the period. In Argentina the fund increased 48% between 2008 and 2017 (US\$67,052 million), but declined 44% in 2020; with respect to the GDP it dropped from 12% to 9%. In Bolivia it decreased by 42% (US\$2,886 million); with respect to the GDP it decreased from 28% to 7%. In El Salvador the fund grew by 17% between 2017 and 2019 (reaching US\$11,700 million), and as a percentage of GDP it increased 5 points; there is no data for 2020. Only the insured faces the risk of a drop in fund value and the capital return, although the bill in Chile returns a portion of the fees to the insured when performance is negative.

The most concentrated investment of the fund is observed in El Salvador, where 82% corresponds to public debt, which grew between 2017 and 2019. Therefore, El Salvador obtained the lowest capital return of the fund among the nine private systems. In Argentina, investment in public debt increased from 63% to 70% between 2008 and 2019 and also rose to 13% in loans granted to the insured and beneficiaries (with very low capital return), while stock investment declined and there is no investment in foreign instruments; real gross capital return is not reported. In Bolivia, 57% of the portfolio in 2019 was invested in bank deposits (with an increasing trend) and 37% in public debt (both with low capital return), therefore, the real gross capital return dropped to an annual average of 5%. Chile had the most diversified portfolio, but with the highest foreign instrument concentration, 43% in 2019, thus its real capital return dropped dramatically in the five multi-funds between January and March 2020 due to the economic crisis, although it had partially recovered in September.

The financial-actuarial sustainability of Argentina, Bolivia,¹⁰ and El Salvador re-reforms is at risk. None of these countries conducted previous actuarial studies; El Salvador did it but in the year after the reform and Bolivia five years later.

Argentina has an advanced aging, a very mature system (the ratio of active workers per one pensioner is 1.3), the fifth highest older adult coverage, generous benefits extended by the parametric reform and the re-reform (RR of 80%, low retirement age of women, reduction of the years of contribution for retirement), and hundreds of special regimes experiencing disequilibria (the most fragmented system after Mexico); therefore, its contribution is the fifth highest in the region and its pension spending is the highest among the eight countries ranked by ECLAC (it increased from 7% to 11% of GDP in 2000-2017 and doubled the average GDP growth). Before the re-reform, the public pillar suffered a strong actuarial deficit financed by the state, but the transfer of US\$25,500 million from such pillar to the public system temporarily eliminated the deficit. It is projected that a growing deficit will take 3% of GDP in 2050 (the contribution rate should increase by 13 percentage points to pay expenses). In 2020, a law added—on an optional basis—five years to the retirement age and tightened the pension formula, but stronger parametric reforms are needed.

Bolivia has an incipient aging, an immature system, a RR of only 31% (the third lowest in the region) and, despite these conditions, its contribution of 15.2% is the eighth highest among the 20 Latin American countries. This may be explained by the facts that its coverage of the older adults is the highest in the region, the re-reform reduced the retirement ages by five years, as well as the years of contributions required, which led to a six-fold increase in retirements. Therefore, its pension spending of 3.8% of GDP is the seventh highest among 17 countries; the 2015 actuarial study projected that, in 2031, the financial balance will be negative, and the contribution rate would have to be increased between 126% to 931% to restore equilibrium; the solidarity fund would show a deficit in 2022; in October 2020 there was no parametric reform bill.

El Salvador has moderate aging, a young system, the third lowest coverage of older adults in the region, and a single special regime of the armed forces (but it is experiencing an actuarial disequilibrium); the 15% contribution is the highest among the private systems after Uruguay and Colombia; its pension spending increased from 2.1% to 2.7% of GDP in 2000-2017 and exceeded the average GDP growth by 1.5 points per year; ECLAC ranks El Salvador among the three lowest countries regarding the sustainability pressure. However, the reserves of the two closed public systems were depleted in 2000-2002 (the deficit was financed by transfers from the private system); the 2018 actuarial study projected a net actuarial ***older

¹⁰ The closure of the private system/pillar in Argentina and Bolivia eliminated fiscal transition costs, but the obligations of the insured who were transferred to the public system must be financially guaranteed in the long term.

adult rate*** of 66% of GDP (with the WB approach); the 2017 re-reform increased the contribution by two points, but added three new DB benefits to be financed by the FGS, which is projected to result in a growing deficit as of 2027; the actuarial committee stipulated by the re-reform had not been established in October 2020.

Chile has advanced aging, the most mature private system, the second highest older adult population coverage, a solidarity pension system (although it only takes 0.7% of GDP), but an RR of the private system of only 38%, the fourth lowest in the region; pension spending decreased from 5.7% to 3.1% of GDP in 2000-2017 and it is projected to decrease to 2.1% in 2030 (it will not disappear until 2050), the average annual growth of such spending was 3.7% lower than the average annual GDP growth. Therefore, ECLAC ranks the sustainability pressure as “low.” The costs of the transition have been financed by annual fiscal surpluses, the re-reform underpinned the financial sustainability with the creation of a reserve fund financing the new benefits, subject to actuarial reviews every three years, as well as every five years to evaluate the effects of key variables on RRs and financial needs; the advisory board supervises fiscal sustainability and studies potential modifications required.

The best performance of the re-reforms is recorded in social solidarity (except for the maintenance of special regimes) and gender equity, administrative aspects (except for social participation that has not been restored yet, although with a slight improvement in two countries), sufficiency of benefits (except for a very low RR in Chile), and coverage (growing in Chile and Bolivia and stagnant in Argentina and El Salvador). The weakest performance has been in social dialogue and, particularly, in financial sustainability (in three countries). All of the re-reforms moved forward in most social principles, however, Argentina, Bolivia, and El Salvador face serious long-term challenges in financial-actuarial sustainability.

C) RE-REFORMS PROPOSALS IN COLOMBIA AND PERU

The two parallel models combine a private system (RAIS in Colombia and SPP in Peru) and a public system (RPM and SNP respectively), which compete against each other, without any coordination. In both countries, the public system share in the total number of active insured has declined over time (more in Colombia than in Peru) and was a minority in 2020, which means that the PAYGO system includes the majority of pensioners but the minority of contributors exerting strong sustainability pressure, more in Colombia than in Peru.

Colombia has moderate-advanced aging, a mature public system, three separate generous and expensive regimes receiving fiscal subsidies, the lowest retirement ages among private systems after El Salvador, the public system RR is 73%, and only 36% of the total insured contribute to the public system. Considering these high-cost indicators, there

are a few that reduce spending: the older adult coverage is the fourth lowest coverage among the nine private systems and there are nine countries in the region with greater coverage, the minimum pension in such system is not granted when the insured has other income, and the non-contributory pension does not cover the nutritional requirements of the indigence line, which has been reduced in recent years. The contribution is the highest among private systems except for Uruguay, which has the highest costs. There is a serious problem of inequity: in the public system, 80% of fiscal subsidies are received by 20% of the highest-income population and part of the affiliates (most of them low-income affiliates) subsidize the highest-income pensioners, while in the private system the insurers who fail to meet the requirements to receive a pension subsidize pensioners receiving a minimum wage pension; the richest 1% receive as much in pensions as the poorest half of the population. The public pension spending regarding the GDP grew from 1.4% to 4.5% between 2000 and 2017 and the average annual growth of these pensions exceeded such GDP growth by 5.2 percentage points, thus ECLAC ranks Colombia as the fourth country with the greatest (“medium”) sustainability pressure among the seven private systems plus Argentina. The IADB estimates that the public system deficit was 3.8% of GDP in 2013 (its reserves were exhausted in 2003) but, due to the decline in affiliates to this system, the deficit would drop to 2.1% in 2025 and 1.7% in 2075; it also projects that the pension debt in 2013-2075 will take up 129% of GDP, while ECLAC believes that the public system will not face financial problems until 2030 but they will worsen thereafter.

Peru has moderate aging, older adults have the third lowest coverage among private systems, retirement ages are the highest among these systems (equal to those of Costa Rica and Mexico), the RR is 39%—lower than the minimum standard of 45% set by the ILO, the non-contributory pension is low, only received by people living in extreme poverty and has not been adjusted to the cost of living, hence it has been devalued, 60% of the insured will not be entitled to a pension for not meeting 20 years of contributions, and a parametric reform made changes to reduce the cost of the public system; the only element that increases the cost is a dozen special PAYGO systems that are very expensive and have experienced a financial-actuarial disequilibrium. On the other hand, the private system is experiencing serious problems, the worst is that the insured can extract 95.5% of the balance in their individual accounts before retirement, in addition to several other withdrawals that are virtually vanishing the fund. Public pension spending decreased from 4.7% to 1.6% of GDP between 2003 and 2017, and its average annual growth was 4.6 points lower than the GDP growth mentioned above; the fiscal cost was only 0.2% of GDP in 2017 and it is projected between 0.1% to 2% of GDP by 2050. Therefore, ECLAC ranks Peru as the country with the least financial sustainability pressure among the eight investigated.

Neither the first Peruvian bill nor the reform proposals in those two countries have undergone a prior actuarial study;

a strong public debate has been started in this regard, except for the first Peruvian bill that was confidential.

Most proposals in Colombia recommend a mixed system integrating both systems (with four pillars): the public system undergoes a parametric reform (including an increase in low retirement ages) and becomes the basic PAYGO pillar, while the private system is transformed into a second complementary pillar with several reforms to the AFP. At the time of retirement, the insured receives a basic pension from the PAYGO pillar and an additional one from the funded pillar (similar to the three existing mixed models). The proposals also agree on a first pillar of non-contributory pensions that must be expanded, all proposals support close coordination between the various pillars, and also, one proposal, endorses the creation of an independent supervisory agency that regulates and monitors the entire system, including separate regimes. One proposal suggests the creation of a semi-contributory voluntary savings regime especially for the informal sector, with a tax incentive that matches individual contributions. Two radical proposals close the public system, one (from the AFP) enthrones the private funded system as the most important or practically the only one, adding, as an appendix, a small public element, while the other eliminates the obligation to affiliate and contribute to the AFP, and makes it voluntary.

Two bills and several proposals in Peru generally follow the guidelines of a mixed system with several integrated pillars, but with significant additions: the first bill, which did not pass, replaced the AFP by managers exclusively in charge of the investment of the funds; one proposal changes the current investment model for another one with a life cycle that gradually reduces risk based on the age of the insured; another proposes to determine a “target pension” in which the level of inter- and intra-generational solidarity is decided in advance and the insured are informed on the amount of their pension at the time of retirement. All of them reinforce the state’s role, three point out AFP failures, and the current bill creates a public agency in charge of the integrated system and its essential components. The Peruvian proposals either eliminate current withdrawals of funds or suggest alternatives on how to restrict them or what are the options if such targets are not achieved.

None of the Colombian or Peruvian proposals have been implemented; Colombia has put off the re-reform several times and seems unlikely to be passed, while in Peru the current congressional reform commission is completing a bill to be presented by the end of November 2020.

Summary: Increase in the Role of the State and Decline of the AFP. The four re-reforms increased the role of the government by carrying out the transfer from the private to the public system and/or by creating/expanding the benefits financed by the state, together with new public management agencies. The AFP disappeared in Argentina, but still exist in the other three countries, although with more restrictions in two of them. Argentina created a Bicameral Commission in Congress that monitors the public system

funds and its evolution and may make recommendations, but not binding; an advisory board of the public fund (also with no binding power) and other public agencies conduct external supervision, so there is no unified autonomous superintendence, as in the case of Chile. In Bolivia, the Public Manager is autonomous, although under the supervision of a governmental agency; the AFP that were supposed to disappear, are still performing their previous functions, the Public Manager administers and pays the universal non-contributory pension; the powers of the Executive Branch on the pension system were substantially increased. Bolivia and Chile closed the previous autonomous Superintendence that supervised the private system/pillar and replaced it with a new state agency of diverse unity, nature, and independence. In Chile, within the twelve years between 2008 and 2020, there has been a gradual but constant trend to reduce AFP functions and increase the role of the state. The new Chilean Superintendence of Pensions is still autonomous and unified its control over the entire pension system except for the armed forces and the police; likewise, the state finances the PBS and the APS, improves social solidarity and gender equality, promotes competition, and guarantees the financial soundness of the system. In El Salvador, on the one hand, the role of the state as funder of benefits was contracted, transferring the financial burden of the old DB benefits and those added by the re-reform to workers, employers, and pensioners; it transformed the substitute system into a mixed one by introducing a PAYGO component managed by a state agency.

The re-reform proposals in Colombia and Peru point out AFP failures and strengthen the role of the state. In Peru, the AFP are criticized by three of them for being little or not competitive at all, earning high profits and fees, as well as for the fact that their investments do not match the interests of the insured; one proposal transfers the investment from the AFP to new managers, another one suggests eliminating the administration of individual accounts, a third one recommends multiple measures to improve them, and the fourth and current bill draft reduces AFP functions to the second pillar individual capitalization component and made the AFP of multiple nature; the OECD points out the mistrust of the insured in the AFP. All the proposals reinforce the state's role: recommending a central collecting agency (in two cases also the individual account administrator and payer of pensions), establishing a first public PAYGO pillar, expanding non-contributory pensions financed by the state, granting fiscal incentives to the low-income insured, and two proposals reinforce the public supervisory agency. The proposals in Colombia strengthen the Financial Superintendence and extend its scope to all pensions or create an independent public agency in charge of such functions and accountable to congress; they also expand the non-contributory pension financed by the state, eliminate inequities in the public and private systems, require independent actuarial studies projecting future costs and making them public to ensure the sustainability of the system, write off contributions to mothers for each child born alive with tax funding, modify the AFP fees, end the minimum capital return, and eliminate

fiscal subsidies to special regimes. The reform proposal in Mexico could be considered a re-reform.

My documented critical review in this monograph of private pension systems does not imply by default that public PAYGO systems or CPCs in Latin America do not face financial-actuarial problems. In fact, these problems are analyzed herein regarding the public systems or pillars of Argentina, Bolivia, Colombia, Costa Rica, Panama, Peru, and Uruguay. I have also analyzed the remaining public systems in other publications, except for Haiti.

SUMMARY: INCREASE IN THE ROLE OF THE STATE AND DECLINE OF THE AFP.

The four re-reforms increased the role of the government by carrying out the transfer from the private to the public system and/or by creating/expanding the benefits financed by the state, together with new public management agencies. The AFP disappeared in Argentina, but still exist in the other three countries, although with more restrictions in two of them. Argentina created a Bicameral Commission in Congress that monitors the public system funds and its evolution and may make recommendations, but not binding; an advisory board of the public fund (also with no binding power) and other public agencies conduct external supervision, so there is no unified autonomous superintendence, as in the case of Chile. In Bolivia, the Public Manager is autonomous, although under the supervision of a governmental agency; the AFP that were supposed to disappear, are still performing their previous functions, the Public Manager administers and pays the universal non-contributory pension; the powers of the Executive Branch on the pension system were substantially increased. Bolivia and Chile closed the previous autonomous Superintendence that supervised the private system/pillar and replaced it with a new state agency of diverse unity, nature, and independence. In Chile, within the twelve years between 2008 and 2020, there has been a gradual but constant trend to reduce AFP functions and increase the role of the state. The new Chilean Superintendence of Pensions is still autonomous and unified its control over the entire pension system except for the armed forces and the police; likewise, the state finances the PBS and the APS, improves social solidarity and gender equality, promotes competition, and guarantees the financial soundness of the system. In El Salvador, on the one hand, the role of the state as funder of benefits was contracted, transferring the financial burden of the old DB benefits and those added by the re-reform to workers, employers, and pensioners; it transformed the substitute system into a mixed one by introducing a PAYGO component managed by a state agency.

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RECOMMENDATIONS

1. The Need for Comprehensive, Standardized, Reliable, and Timely Statistics.

Today, there is a deep statistical gap that is essential to solve in order to have the essential updated information to make diagnoses, propose any reforms, and conduct actuarial studies. There are multiple international and regional agencies that compile statistical information, but it is published by long intervals of time, it does not cover all the essential aspects—especially financial ones—and there are contradictions among them. Every three years, the ILO (2018) publishes the *World Social Protection Report*, a very valuable report including statistics—among other programs—of contributory and non-contributory pensions, their legal and effective coverage, entitlement conditions, contributions, amount of benefits, tax expenses, etc. However, as it is a global report and covers all social security benefits, the data is several years behind and there are certain key financial aspects not covered, such as financial balance, investment of funds and their capital return. The IADB posts standardized results Online (SIMS) of household surveys on contributory and non-contributory pension coverage related to a series of significant variables; its access is free but not easy, the user has to complete a process and the survey figures usually do not match with the administrative figures. There are no statistics on other aspects of pensions, although the IADB conducts country studies and comparative analyses of the region. Every six months, the AIOS publishes standardized statistics of coverage, AFP administrative aspects, accumulated capital, portfolio distribution and capital return. These figures are useful and have been used extensively in this document, but they are only limited to private systems, which is why it is impossible to, for instance, estimate the total coverage of the EAP in the parallel and mixed models or what percentage of the total insured is in the PAYGO component and in the fully-funded component. Also, they publish gross capital return figures (net capital return figures are needed), etc. The OECD annually publishes *Pensions at a Glance*, with very useful data that changes each year, but only includes three Latin American countries (Brazil, Chile, and Mexico); it also conducts country studies. ECLAC, in its *Statistical Yearbook* includes a few statistics on pensions and a recent issue of the *Social Panorama of Latin America and the Caribbean* (2017) has focused on pensions. It also publishes some studies in its

monographic series; the most recent issue—quoted in this monograph—dealt with public pension spending. The U.S. Security Administration in collaboration with the ISSA posts, approximately every three years, *Social Security Programs Across the World: The Americas*, including very valuable comparative legal information on coverage, entitlement conditions, contributions, managing agency, etc., but there are no financial or other statistics. The WB and the IMF do not publish regular statistical series on Latin American pensions, but occasionally conduct studies on specific countries.

It would be ideal for these organizations to agree to publish, at least annually, a statistical bulletin showing all the standardized and updated key indicators of the 20 public and private Latin American pension systems. This would be a useful experiment of cooperation in a neutral area and of great importance for these agencies (which often have divergent positions) in their technical country studies, as well as in their comparative analyses of the region and also within countries.

2. Establishing Social Dialogue.

This monograph has documented how reforms—regardless of their nature—have often not been preceded by a broad, open, and transparent social dialogue, with the participation of all sectors involved. To this end, the government should appoint an independent commission of experts with tripartite representation (workers, employers, and government), as well as scholars, retirees, pensioners, and other relevant groups, so that it develops a diagnosis used as the basis for recommendations on the type of reform needed and its basic guidelines, which should be incorporated into the reform bill. This commission would have access to all documents and statistics prepared by ministries and autonomous agencies and would be financed by the national budget. Some models for such commission are that of Costa Rica, created in 1998 for the structural reform, and that of Chile created for the 2008 re-reform and the frustrated attempt at a second re-reform in 2015. The participation of some prestigious international experts has been positive, either as commission members or to hold meetings to discuss its diagnosis and recommendations. The commission should conduct opinion polls and hold meetings with employers' and workers' federations in

order to obtain inputs that are important to its work. It should also request an internal study of the cost of the proposed reforms, as well as an ex-post actuarial valuation simulating the results and costs of alternative proposals and their long-term sustainability. All the commission documents must be made public for citizen transparency and discussion purposes. This procedure would not only enrich the reform but would also confer legitimacy to it. Approval by a referendum or plebiscite of all proposed reforms should be considered (as done in Uruguay).

3. Extending Coverage.

In five of the nine systems (Peru, El Salvador, Mexico, Colombia, and the Dominican Republic—and also in Bolivia), the EAP contributory coverage ranges between 21% to 38%, less than the 50% recommended by the ILO; also, these countries have the largest informal sector, but successful practices have been identified to expand coverage:

- a) Setting gradually the mandatory legal affiliation, starting with professional self-employed workers hired with a minimum income (as is done in Costa Rica, Uruguay, Chile, Colombia, and in the current bill draft in Peru), then other unionized self-employed workers, such as taxi drivers, etc., would follow;
- b) The legal obligation, by itself, would not necessarily extend coverage, hence the recommendation would be to equalize the percentage paid by the self-employed workers to that of salaried employees and adjust their pensions actuarially, or grant a state subsidy or a solidarity contribution as a matching incentive upon registration and payment of contribution to low-income self-employed workers (as done in Costa Rica, Bolivia, and Peru—recently), which would imply less costs than granting these workers a non-contributory pension at the end of their working life; another alternative would be to award them benefits granted to salaried workers (Chile);
- c) In the Dominican Republic, the contributory-subsidized program that was designed by the structural reform in order to incorporate self-employed workers must be implemented;
- d) Domestic-service employees have mandatory coverage in most countries but it is not implemented; to achieve this, their working conditions have to be regulated, their unionization and collective bargaining promoted, a minimum tax base established, and a home inspection developed and sanctions on tax-evaders imposed, especially employers (Uruguay and Costa Rica);
- e) Likewise, salaried agricultural workers (especially in large plantations) or cooperative members must have mandatory affiliation (Uruguay and Costa Rica);
- f) It is advisable to combine pension coverage with health coverage as the latter is usually more important for these groups than the former;
- g) Designing ad hoc plans for informal workers having contributions and benefits tailored to their payment capacity and actuarially adjusted;
- h) Other additional measures to incorporate the informal sector are: simplifying registration procedures, making payment periods more flexible, establishing the *monotributo* (unified tax regime, as in Uruguay and Argentina), enabling post offices, banks, and smartphones for the collection of contributions and payment of pensions, sending reminders to affiliates through personalized periodic messages (by mobile phones, emails, and similar means) with projections of the pension they will receive at the time of retirement (Mexico);
- i) Offering unpaid family workers a voluntary affiliation with incentives such as those mentioned.

Non-contributory pensions have increased older adult coverage, reduced poverty, reinforced social solidarity, and improved gender equity, at a cost of less than 1% of GDP, although in several countries their amount is very low (Bolivia and Mexico); the following policies are recommended:

- a) The two countries with the lowest coverage—the Dominican Republic with 19% and El Salvador with 14%—should, the former, implement a subsidized regime and, the latter, resume the extension of coverage which is now stagnant. Both of these countries could argue that it is impossible for them to afford the cost of extending coverage or increasing benefits, but they subsidize separate privileged and expensive regimes (see Section 5) and, additionally, it would be necessary to investigate whether they are actually able to increase the tax burden as a percentage of GDP, especially through income taxes;
- b) Contributory and non-contributory pensions must be integrated in order to avoid duplication and fraud (as in Chile, Costa Rica, and Uruguay);
- c) In Mexico there is a great fragmentation of contributory and non-contributory programs. If these programs were integrated “it would be possible to increase net pensions, ...reduce administration costs, ...obtain significant savings from fiscal resources, and reduce perverse incentives in the labor market” (Azua, et al., 2018: v);
- d) Argentina should establish a unified program of non-contributory pensions, mean tested and targeted on the poor, as well as end the arbitrary pensions granted by Congress;
- e) The Renta Dignidad database in Bolivia would have to be cleaned of any duplications and fraudulent beneficiaries, and take effective measures to include potential beneficiaries excluded from coverage due to their language, lack of information on their rights and/or proper identification; and
- f) Conducting a study in all countries to measure, on a standardized and comparative basis, the impact of non-contributory pensions on poverty, and their potential effect on the formal sector, as well as on affiliation and payment of contributions to the contributory system.

4. Expanding Social Solidarity.

Social solidarity is usually external to the private system; several measures are suggested to expand it:

- a) In Peru, restoring the employer contribution (current bill does this) and, in Chile, passing in congress the law that imposes a 6% contribution to the employer;
- b) In Uruguay, the fact that workers pay approximately two-thirds of the total contribution (violating the ILO minimum standard stating that workers must not pay more than 50% of the total contribution) must be corrected (in Panama workers pay 68% of the total contribution to the pension program, but employers pay the total contribution to the health program);
- c) Granting a solidarity state contribution to improve low contributory pensions up to a ceiling where this contribution ceases (as in Argentina, Chile, Mexico—where a bill in congress increases such contribution—and Uruguay);
- d) Expanding non-contributory pensions that have played a key role in extending older adult coverage;
- e) Also, expanding non-contributory pensions would help to reduce education and residence (urban and rural) gaps, in coverage by all pensions for older adults, as these gaps are smaller in this group than in the EAP contributory coverage because non-contributory pensions are paid to the poor who are more concentrated among those with no or only elementary education and among rural residents; and
- f) Eliminating the glaring inequalities in the two parallel systems in Colombia (as established by various reform proposals).

5. Integrating the Special Privileged Regimes.

The persistent fragmentation of several systems with entitlement conditions and generous benefits and fiscal incentives—especially the armed forces regime in all countries, except Costa Rica—requires:

- a) Especially in the more fragmented systems of Argentina, Bolivia, Mexico, and the Dominican Republic (Panama, to a lesser degree), a thorough reform that may equate the conditions and benefits of separate regimes to the general system, being fully financed by the insured and with no fiscal subsidies. As this would probably require very high contributions, entitlement conditions would have to be tightened and benefits reduced;
- b) The exclusion of the armed forces in Chile, where they imposed the private system, but excluded from this system to preserve their privileged regime—whose cost are equivalent to those of all non-contributory pensions—, is particularly inequitable and such regime should be integrated as most of the population claims;
- c) In Mexico the two main programs for the private and public sectors should be integrated (the public sector has better conditions than the private one);

- d) The gradual process of integration of 19 separate regimes in Costa Rica and the recent parametric reform of the judicial system are good role models.

6. Improving Gender Equity.

Any discrimination created by the labor market must be faced in all countries with appropriate actions:

- a) Equal pay to women and men for the same work;
- b) Promoting greater female participation in the labor force through training;
- c) Expanding public and free or subsidized day care centers so that women can increase their participation in the labor force; and
- d) Formalizing employment contracts for domestic-service employees.

To overcome discrimination resulting from the system itself, other measures are required:

- a) Expanding EAP female coverage in Peru, El Salvador, Mexico, Colombia, and the Dominican Republic where it is less than the 50% stated by the ILO minimum standard;
- b) Establishing the non-contributory regime in the Dominican Republic and expanding the coverage of older adult women for such pensions in El Salvador (coverage is 12% and 17% respectively in these two countries);
- c) Compulsorily incorporating domestic-service employees in El Salvador and Mexico,¹¹ as well as executing the legal coverage mandate in the rest of the countries following the successful practices of Uruguay and Costa Rica;
- d) Offering voluntary affiliation to domestic workers (housewives);
- e) Equalizing the retirement age for both sexes in Chile, Colombia, El Salvador, and Panama;
- f) Replacing sex-differentiated mortality tables with unisex tables in all countries (following the example of public systems such as Argentina and Bolivia and of the private system in El Salvador);
- g) Equalizing the disability and survivors' premium for both sexes (as in Chile);
- h) Compensating women for the time they spend taking care of their children by granting them one year of contributions or a bonus for each child born alive (as in Bolivia, Uruguay, and Chile; and as stated by a re-reform proposal in Colombia);¹² it should also be considered to compensate women for taking care of the elderly and disabled at home;
- i) When the spouse holding the pension gets divorced, half of the fund in the individual account should be shared with the other spouse, usually a woman; and

11 Those countries that have not ratified the 2011 ILO Convention on Domestic-Service Employees should do so.

12 In Argentina, mothers with many children and without resources are entitled to a non-contributory benefit.

- j) The measures recommended to extend the coverage of self-employed workers would favor women, because they are overrepresented in this type of work.

7. Increasing the Adequacy of Benefits.

The average RR of the nine systems is 39.8%—well below the minimum standard of 45% set by the ILO.

- a) FIAP's proposal to improve RRs is increasing contributions; nevertheless, we have not seen an actuarial study showing that such increase achieves the minimum RR. Actually, the 2020 Mexican proposal in congress (so far not supported by a published actuarial study) is a RR of 40%, i.e., five points below 45%. Also, FIAP: has supported state contributions to individual accounts in order to improve low contributory pensions (as in Bolivia, Chile, Mexico, and Panama) or as an incentive to incorporate self-employed workers (as in Costa Rica, or a contribution of the solidarity account as done in Bolivia); has requested increases in retirement ages; and has approved the expansion of non-contributory pensions financed by fiscal authorities. On the contrary, FIAP has not offered—in order to increase RRs—to reduce AFP high fees, advertising expenses, profits, and remunerations of the directors, proven in this monograph. In other words, any help provided by workers, employers, and the state to improve the RRs is welcome, but with no sacrifice by the AFP, not one bit. Any solution must include the AFP giving up some of their benefits in order to improve the RRs; otherwise it would be inequitable.
- b) Countries where the adjustment of contributory pensions is left to the discretion of the government (El Salvador, Mexico, Panama, and Peru) must introduce CPI or wage adjustments.
- c) The Dominican Republic must issue the recognition bond—a right of those who contributed to the old public system that would increase their pensions.

8. Improving the Administration and Reducing Costs.

It has been shown that competition does not work in most countries (there is a duopoly in El Salvador and Bolivia) and that administrative costs are high and substantially reduce future pensions amount (both regarding the old-age program and the annuities); to face these problems it is advised to:

- a) Establishing, in all countries, multiple-nature administrators (private, public, cooperative, mixed), same rules for all, following Uruguay's example, where a public administrator has successfully operated for many years (there are also multiple administrators in Colombia, Costa Rica, Mexico, and the Dominican Republic);
- b) Holding bids every two years where the AFP that offers the lowest fee takes the new affiliates (as in Chile and Peru), as well as a portion of those already affiliated, and stipulating that no AFP can exceed by 50% the lowest fee in the market;

- c) Setting limits on fees and premiums (as in El Salvador and the Mexican bill in congress that sets the limit according to the average of four countries), as well as on commercial expenses;
- d) Supporting fees on capital returns (which already exists in several countries) replacing fees on salary, which does not offer incentives to the AFP to improve their performance;
- e) Introducing electronic transfers among the AFP (as in Chile);
- f) Connecting the AFP with the volatility risk in the stock market by creating a fund with contributions from the AFP when there are profits in such market, in order to return fees or assist the insured in the event of losses or economic crises (as in the bill in Chilean congress);
- g) Imposing strict measures to prevent senior state officials and autonomous agencies (such as pension superintendencies) from accepting positions on the board of directors of the AFP (for example, disqualifying them while they are in office and for certain period of time after ending their jobs);
- h) Restricting excessive profits by the AFP and disproportionate payments to their managers and directors;
- i) Publishing comparative indicators on the AFP performance, in a simple and understandable way, in the media so that the insured can make an informed selection;
- j) Increasing competition among insurance companies for disability and survival risks and ensuring that there is no collusion between insurance companies and the AFP; another alternative is to take the coverage of such risks back to the social insurance institute, as in Colombia, Costa Rica, and Mexico (upon prior research of the efficiency and cost of both alternatives);
- k) Encouraging the creation of insurance companies that offer annuities;
- l) In Bolivia, the new government should advance the date for the Public Manager to take over the duties of the AFP, set in the constitution and laws, and
- m) In Chile, the advisory board and the commission of users should more accurately assess the impact of the reform on fees and premiums.

9. Restoring Social Representation in the Administration.

Workers are the owners of individual accounts, but they have no representation in their administration in the private systems/pillars (as occurs in the public systems/pillars) or in the superintendence; therefore, it is recommended to:

- a) Establishing that workers have representation on the AFP board of directors and creating a committee of affiliates in each AFP (as proposed by a law in the Chilean congress);
- b) Creating advisory boards with representation of workers and employers in order to advise the superintendencies and setting in them a unit for the protection of affiliates (proposed re-reform in Colombia);
- c) Implementing, in El Salvador, the actuarial committee established by the re-reform law with representation of

workers and employers, in addition to the government; and

- d) Complying, in Bolivia, with the constitutional mandate stating that the Public Manager has representation of workers, employers, and the government.

10. Improving Information and Knowledge.

Surveys show little or no knowledge of the pension system among the insured and the population; also, workers do not choose administrators based on their lower fees and higher capital returns on their investments but based on advertising and on salespeople efforts who charge a commission for each affiliate they bring on; to mitigate these problems it is advised to:

- a) Simplifying the information on the performance of the administrators and the superintendence; as this information is highly technical, it needs to be adapted to the educational level of the majority of the insured;
- b) Educating the insured and the general population through a pension education fund or a strategic education plan, and through the insertion of a social security subject in the school curriculum (as in Chile, Mexico, Costa Rica, and the bill draft in Peru, respectively);
- c) Obliging the AFP to finance pension education programs addressed to all their insured and also offering more information to make a better selection among the multi-funds in seven countries and switches among them; and
- d) Creating a unit in the superintendencies to assist the insured in their selection of multi-funds, annuities, or scheduled withdrawals, as well as regarding other inquiries.

11. Strengthening Compliance.

In all private systems, a declining trend was found in the affiliates who contribute, which is due, among other causes, to evasion and payment delays. This and other problems of avoidance and under-declaration of taxable salary were also documented; non-compliance contributes to the deficit in public systems/pillars, as well as to a lower accumulation in individual accounts and in the pensions amount; to alleviate this problem it is recommended to:

- a) Establishing centralized collection by a state agency in Chile, El Salvador, and Panama where it does not yet exist (it has just been recommended in El Salvador and in the bill draft in Peru), with the purpose of achieving economies of scale, simplifying payments, matching information of the tax system with that of pensions, and better detecting delinquent employers;
- b) Investigating which portion of the low and declining contribution of affiliates is due to evasion and delay payments and which portion is due to other causes;
- c) In private systems, the insured worker must play a more active role in detecting a payment delay in the employer's contribution by verifying the periodic

report sent by the AFP, and the latter should notify workers immediately about any delay—education of the insured is needed to achieve this;

- d) Changing the calculation of the average salary when it is based on the last years of work, as this encourages under-declaration in previous years, as well as over-declaration in recent years to obtain a higher pension (ECLAC, 2018);
- e) Introducing the *monotributo*, which unifies all contributions and taxes in a single payment (as done successfully in Argentina and Uruguay);
- f) Requiring payment of all contributions and no payment delay in order to have contracts with the state, obtain certificates from the public registry, and receive tax incentives (as in Costa Rica);
- g) Imposing strong sanctions on those violating the law (Costa Rica implemented “the social security offense”) including imprisonment sentences that are fully executed and advertising in the media about private and public companies that evade or default state agencies;
- h) Setting sanctions and fines not in the law (as they devalue quickly) but in percentages;
- i) Strengthening inspection and introducing monetary incentives to inspect small- and medium-sized companies; and
- j) Creating specialized judicial bodies in charge of hearing non-compliance offenses, in order to reduce the accumulation of cases and the delay in their solution and, also, to create labor conciliation centers to reduce trial cases (as established by Mexico's labor reform).

12. Diversifying the Investment Portfolio.

To diversify the investment portfolio of the AFP, the following actions are proposed:

- a) The Superintendence must play a more active role to avoid an excessive concentration of funds invested in one or two instruments—a risky attitude has been the consecutive increase by the Superintendence of limits on foreign investment in Peru;
- b) Likewise, encouraging investments in new instruments such as infrastructure, mortgage bonds issued and guaranteed by specialized banks (but not in personal loans or direct investment in the construction of houses, as they have had adverse results)¹³ and national development bonds also issued and guaranteed by banks for the promotion of industry, agriculture, tourism, and technology;
- c) In Costa Rica, Uruguay, the Dominican Republic, and El Salvador, between 61% to 82% of investment is concentrated on public debt and its diversification is essential;
- d) The Salvadoran re-reform put an end to the excessive future concentration of the investment of fully-funded

¹³ For further information on this topic and for other investment recommendations, please see the latest edition (2020) of the OECD's annual survey on pension fund investment.

- funds* in public debt instruments to finance the transition, but still most of the investment is in such instruments (CIP) with relatively low capital return and continue to be issued, which must be stopped or gradually reduced;
- e) Public collective funds in Argentina¹⁴ and Bolivia (here also the individual account fund) need to diversify their investments in order to reduce excessive concentration in public debt and bank deposits, respectively, which pay low or negative real returns;
 - f) A moderate share in foreign instruments may help diversification and improve long-term capital returns (several countries prohibit such investment), but the very high concentration in Peru and Chile (a little less in Colombia) in these instruments exposes to high risks and losses when global crises occur, therefore, more balanced limits are to be imposed between the objective of increasing capital returns and that of reducing risk; and
 - g) Allowing a wider choice in investment strategies while maintaining the default life cycle option to protect those insured that are close to retirement and then prevent slumps in the stock or annuity markets (OECD, 2015; this is also proposed in re-reforms of Colombia).
- a) Deferring income tax until the additional saved funds are withdrawn;
 - b) Equalizing the fees charged to mandatory and voluntary savings;
 - c) Eliminating barriers such as meeting a five-year permanence period in the mandatory system to contribute to the voluntary savings (Peru) or meeting a waiting period to withdraw sums from the voluntary fund (Mexico, who is eliminating this barrier through a bill in congress);
 - d) Introducing new techniques (Mexico) such as automating accounts, digital files, electronic deposits, biweekly reminder text messages to savers' mobile phones, Facebook campaigns for those who already have accounts, and report balance, and advertising campaigns in the media and transportation; and
 - e) Setting a pre-established automatic voluntary savings mechanism by discounting an amount from the payroll of formal salaried workers, with an opt-out option; transferring a portion of the income tax return to voluntary savings and adding a percentage for said savings to all credit card purchases with an opt-out option.

13. Evaluating Capital Returns to Increase them.

Comparing capital returns in these countries is quite difficult; current series are of short-term basis and gross return. Some countries only publish the nominal capital return and generally there is no accessible information on the capital return of specific instruments; therefore, the following is necessary:

- a) Developing historical statistical series standardized in all countries on real *net* capital return (deducting the administrative cost and adjusted for inflation);
- b) Publishing in all countries the real net capital returns by instrument so that the insurers and the superintendence can judge whether the investment is yielding a proper performance; and
- c) Granting binding power to the investment recommendations made by the users council in Chile and to those made by the advisory board in Argentina.

14. Creating a More Attractive Climate for Additional Voluntary Savings.

Until now, additional voluntary savings have not been successful in the nine private systems, but they have actually been quite successful in Brazil, where there is a public PAYGO system; in order to stimulate such savings, it is appropriate to:

15. Restricting the Withdrawal of Funds from Individual Accounts.

To mitigate the conflict between, on the one hand, the urgent and severe need experienced by the insured due to the pandemic and the economic crisis and, on the other hand, the danger that the pension systems collapse, whose main objective is to guarantee a minimum income during old age, disability, and to survivors, the following is proposed:

- a) In Peru, multiple withdrawals of funds before retirement should be reversed or restricted to prevent them from being used for consumption, as evidence shows. To attain this, it would be necessary to reduce their amount and set as a condition to allow withdrawals that the sum withdrawn is returned within a given period after the pandemic or that they are invested in micro-businesses that may financially help the insured in the future;
- b) The state should provide aid to people in need during the pandemic and recession, following the policies recommended by regional and international organizations such as the IADB, the ECLAC, and the ILO;
- c) To face COVID-19 and the crisis, deferring contributions to the AFP, which would allow placing more public resources in capital expenditures, leading to employment reactivation;
- d) The insured with sufficient funds could withdraw a reasonable percentage from their individual account to build a house or make the principal payment on a mortgage, after assessing their ability to comply with these payments; and
- e) The law should warn the insured who withdraw the funds, that they will not be able to receive non-contributory pensions in the future, and this provision would be informed to, and should be accepted by, those who make the withdrawals.

14 In Argentina, funds transferred from the individual accounts that were merged with the fund of the public PAYGO system must be invested pursuant to strict legal regulations that maximize their return and minimize their risk.

16. Reinforcing the Equilibrium with Actuarial Studies.

Financial-actuarial sustainability is essential to ensure compliance with all the key principles of the pension system; here are some country-specific recommendations:

- a) In Chile, keep complying with the periodic actuarial valuations stipulated by the 2008 re-reform and ensuring that the necessary budgetary funds are allocated for the payment of solidarity benefits.
- b) In Costa Rica, approving, in early 2021, the key proposal to eliminate or reduce early retirement (the main problem that the public pillar is facing) and conducting an actuarial study to determine if such proposal and the 2020 parametric reform will require another parametric reform by 2035.
- c) In El Salvador, choosing the members of the actuarial committee stipulated by the 2017 re-reform in order that this committee may recommend measures to face long-term commitments, especially to face the CGS deficit projected as of 2027.
- d) In Mexico, the current reform proposal in congress is positive, but it will not resolve the current disequilibrium (mainly caused by the option to choose between the pension formula of the closed DB system and the one resulting from the fund accumulated in the individual account). Also, the projected increase in the average RR from 30% to 40% should be validated by an actuarial study (if already been conducted, it should be made public).¹⁵
- e) In Panama, it is essential to immediately conduct an actuarial valuation due to the severe and current financial and actuarial disequilibrium.
- f) In the Dominican Republic, the modest 2020 parametric reform is not enough to restore the equilibrium in the general system (it did not increase the low retirement ages, which was essential); therefore, actuarial studies must be conducted to determine the necessary measures to achieve this objective, as well as in the multiple special regimes that are experiencing disequilibrium.
- g) In Uruguay, the newly appointed reform commission must have an actuarial valuation of its proposals; one of the most debated changes will be the increase in the very low retirement age.¹⁶

As for the re-reforms, Argentina did not conduct a prior actuarial valuation; as far as is known, it has not conducted one afterwards and the 2017 parametric reform is probably insufficient, while Bolivia conducted an actuarial study in 2015 that detected sustainability problems (it projected that the solidarity fund will have a deficit as of 2022 and

15 To increase income in Mexico, the proposal is to transfer all or part of the 5% that is contributed to the housing fund into the pension program.

16 The chairman of the current commission to reform pensions proposes an increase from 60 to 65 years of age, doing this gradually and protecting from the increase to the insured who are close to retiring; after they turn 65 there would be automatic indexation to life expectancy (Saldain, 2020).

the financial unbalance around 2031) and five years have passed since then. Therefore, both countries (and El Salvador) should conduct an actuarial study, preferably done by an international specialized organization, in order to evaluate the results of the re-reforms and project the equilibrium of their public systems in the long term. Re-reform proposals in Colombia and Peru—the majority of which propose a mixed model—must be subjected to a prior actuarial valuation. The special regimes in all countries require urgent actuarial studies in order to integrate them and restore the equilibrium.

17. Unifying, Expanding the Scope, and Making the Supervisor Independent.

A unified supervisor, with real independence and reinforced power is essential for both private and public systems.

- a) In Chile, the Superintendence of Pensions that regulates and supervises all pensions should include the armed forces;
- b) Also, there is only a one superintendence in Costa Rica (there is one in the Dominican Republic but with less power); the rest of the countries should follow this example and implement a unified superintendence (without excluding any regime), which is truly independent and specialized in pensions (in Colombia it would be advisable to separate it from the Financial Superintendence and in Peru to separate it from the Superintendence of Banking and Insurance);
- c) In Argentina, the public fund (FGS) should be converted into an autonomous institution, not managed by ANSES but by a collective technical body and without government intervention, while the recommendations of the congressional commission should be binding;
- d) In Bolivia, the supervisory agency should not be under the “tutelage” of a ministry and be clearly independent from the executive branch; and
- e) CONSAR in Mexico should extend its supervision to all separate regimes with entitlement conditions and very generous benefits, subsidized by fiscal authorities.

18. What Model for the Reform?

In this monograph I have consistently argued that any type of reform must be adapted to the peculiarities of each country, because it has been proven that a reform model for all countries does not work—as was proven when Bolivia and El Salvador copied the Chilean substitute model, these countries lacked the essential conditions that Chile had in the labor market, in the capital market, etc. It would, therefore, be a flagrant contradiction to recommend here only one re-reform model. As general guidelines, first, I recommend a series of requirements that must be met by any type of reform; second, I offer some general observations based on this monograph; and third, I outline three alternative models (given as examples and are not exhaustive) that countries should take into account.

A. MANDATORY REQUIREMENTS TO BE MET BY ANY TYPE OF REFORM:

- Be preceded by a broad social dialogue with the participation of all pertinent sectors, with the purpose of maximizing the reform consensus and legitimacy, as well as by a public educational campaign explaining to citizens the problems entailed and the need for solutions with alternatives; it is advisable to conduct a plebiscite or referendum to consult citizens' opinion on the reform.
- Conducting actuarial studies by specialized international organizations or private companies with an impeccable reputation; these studies would show concrete conclusions in understandable language, as well as equally accurate and intelligible recommendations, and must be published and disseminated with full transparency.
- Conducting an in-depth technical diagnosis and designing the reform carefully, taking into account the peculiarities of each country. Also, said diagnosis should be published and discussed.
- Pursuing as a main objective the improvement of all the principles of social security including long-term sustainability; goals such as reducing the fiscal deficit, setting measures to increase capital accumulation, and developing the stock market are laudable, however, they should be subordinated to the fundamental principles of social security.
- Establishing a mechanism by an independent agency, with the participation of the sectors involved, in order to monitor the implementation and follow-up of the reform, issuing annual performance reports and evaluations every five years.

B. GENERAL REMARKS

- The structural reform was sold as a panacea by supporters in the countries and by international financial organizations; caution should be taken to avoid presenting the re-reform or the public PAYGO system as panaceas, without taking the necessary precautions.
- A re-reform that closes the private system/pillar and transfers the insured and their funds to a public system is feasible, but it would be necessary to consult the insured who are in such system/pillar and perform this re-reform with the precautions indicated above, particularly on financial sustainability; because the Argentine, Bolivian, and Salvadoran re-reforms face long-term sustainability risks. None of them conducted a previous actuarial study and not all were preceded by a broad social dialogue.
- The replacement of the private fully-funded system for the public PAYGO system is also feasible, provided that such system is financially and actuarially balanced. Therefore, not only a prior actuarial study is an essential requirement but also, if the scaled

premium system is chosen,¹⁷ it must specify the contribution increase in each stage and, in any case, a firm commitment from society to support said increases is needed, in addition to periodic actuarial reviews to adjust it.

- The re-reform does not necessarily have to close the private system. The Chilean case shows that this model can be maintained if several principles of social security are improved with a process that has continued since the 2008 re-reform implemented by a center-left government and which a neoliberal government is continuing. The reform proposed in Mexico by a left-wing government, now being considered by congress, also maintains the private system, but introduces changes in the principles of social security, although not as profound as in Chile, and there are doubts about financial-actuarial sustainability. On the contrary, the Salvadoran re-reform is not a good example to follow because its fundamental objective was to reduce the fiscal deficit and it overlooked key problems such as expanding coverage, especially to excluded groups, as provided for by the structural reform law. Finally, the re-reform should follow the recommendations given in this monograph on changes in the administrators, including the shared sacrifice of its benefits and not only depending on the action and financial support of the state.

C. THREE OPTIONAL MODELS TO CONSIDER:

- The DB system with notional individual accounts that works in Italy, Latvia, Poland, and Sweden: active workers contribute to the system and pay for retirees' pensions; the amount of pensions is determined by the contributions that are accounted for virtually in an individual account and a rate of return is added; the resources collected are allocated to pay pensions in progress; at the end of his/her working life, the insured receives an annuity based on the accumulated amount in the virtual individual account, his/her life expectancy and the rate of return, as done in the defined contribution systems; the state manages the system and guarantees its solvency.
- A sovereign fund such as the funds of two public corporations of teachers in California (CalPERS and CalTRS): both added together amount to US\$620,000 million, a greater amount than that of the combined funds of all the AFP in the region; administered by a non-profit public agency (with a technical board and representatives of workers and employers); individual capital accounts and DC. This fund would unite all the AFP, achieving economies of scale (by eliminating multiple boards of directors and commercial managers) and a consolidated fund that would have more bargaining power (Meunier, 2019).

¹⁷ In this actuarial regime, "scales" are established in stages; in each step the contribution must be increased to maintain the equilibrium.

- A mixed system as already exists in Costa Rica, Panama, and Uruguay and currently being debated in Colombia and Peru (with significant additions): i) a solidarity pillar of non-contributory pensions for all the poor financed by fiscal authorities; ii) an actuarially balanced PAYGO solidarity pillar that pays the main pension (or a basic pension covering essential needs), financed by worker and employer contributions (complying with the standard establishing that no more than 50% will be paid by the worker) and, if necessary, by the state; iii) a supplementary individual fully-funded pillar (conducting a prior referendum to decide if it should be mandatory or voluntary is advisable) and with measures to ensure strong competition by multiple administrators (including a state administrator) with equal rules for all, to avoid profiteering and involve the administrator in the risks of stock market volatility; and iv) a voluntary savings pillar without obstacles, with incentives and multiple administrators.

ABOUT THE AUTHOR

Carmelo Mesa-Lago is a Distinguished Professor Emeritus of Economics and Latin American Studies at the University of Pittsburgh; has been a visiting professor/researcher in Germany, Argentina, Cuba, Spain, USA, Mexico, UK, and Uruguay, and has lectured in 39 countries. Author of 94 books and 316 articles/chapters of books published in 9 languages in 34 countries, most of them on social security (pensions and health).

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CONCLUSIONS AND RECOMMENDATIONS OF THE EVALUATION OF FOUR DECADES OF PENSION PRIVATIZATION IN LATIN AMERICA: PROMISES AND REALITY



The controversy over fully-funded systems of privately administered pensions has existed for over three decades. It is against this backdrop that the author evaluates privatizations made on the key aspects of social security, based on reliable statistics on the subject and on relevant academic literature.



He gathers the evidence and performance of private pension systems in the nine Latin American countries that adopted them and—based on their defenders' promises—he analyzes the results of the re-reforms in four countries and the current reform proposals in other three.



Based on the conclusions of this analysis, he presents a series of recommendations arising from a flexible approach, and not from a single model approach, for a reform that meets the criteria of social security and justice.