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Closing the Coverage Gap: The Role of Social Pensions
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Access to contributory pensions

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The issue

- The *picture*: developing countries have low SS coverage among the labor force (Lucchetti and Rofman 2006, Palacios and Pallares 2000,...)
- The *movie*: many workers seem to be switching between contributing and not contributing.
- While low participation of workers in the pension system is always a problem, the exact nature, causes and policy implications of the phenomenon are likely to be different depending on whether participation in social security is a permanent or a temporary status for each worker.

- Because of incomplete and highly fragmented work histories in Latin America...
 - Many contributors of the pension schemes may not qualify for ordinary pensions.
 - Sustainability might be threatened.

- This issue is becoming increasingly important as the SS administrations have only recently begun to keep work history records.

- What do we do in this paper:
 - We propose a methodology to:
 - Estimate the probability of complying with the contributions condition.
 - Assess the impact of several variables on the probability of contributing.
 - We provide empirical results for the case of Uruguay.

Methodology

- Two stages methodology:
 - First Stage: Estimate the probabilities of transition between two states: contributing and not contributing
 - Second Stage: Run Monte Carlo simulations to compute the probability that workers reach the required number of periods of contribution to access a pension.

Results I: the transition probabilities

- Economic downturns raise the risk that *private* workers stop contributing and reduce the chances that they start contributing.
- Young workers have higher risk of quitting the state contributing but also of quitting the state not contributing, i.e. they are more mobile.
- As workers spend time in any of the two states, the chances of staying in the state rise and hence...
- History and luck during the first periods in the state seem to be crucial for the fate of the working career.

Results II: probabilities of complying with the contributions requirement

- Most contributors to the Uruguayan main SS institution would not comply with the 35 years of contributions required to access an ordinary pension at the normal retirement ages.
- The proportion of workers who would comply is higher among
 - Men than women
 - Public than private sector workers
 - High than low income workers.

Discussion and Policy Implications

- Our results suggest that the conditions to access to pensions should be loosened in Uruguay.
- Chance, choice and design...
 - If short careers stemmed from *bad luck*, then the pension scheme should insure workers against this risk → Loosen the access conditions and provide flat pensions. But...
 - Short careers could also be a matter of *choice* → Avoid flat pensions: provide incentives making the replacement rates sensitive to contributions.