

# Experiences with Social Pensions in Middle Income Countries (MICs): Reflections in the Latin American Context



World Bank-Hitotsubashi-MOF Workshop on  
Closing the Coverage Gap  
The Role of Social Pensions  
MITA Kaigisho, Tokyo

Andrew D. Mason  
The World Bank  
February 21, 2008

# Extending Old-Age Income Security in the Latin American MICs

---

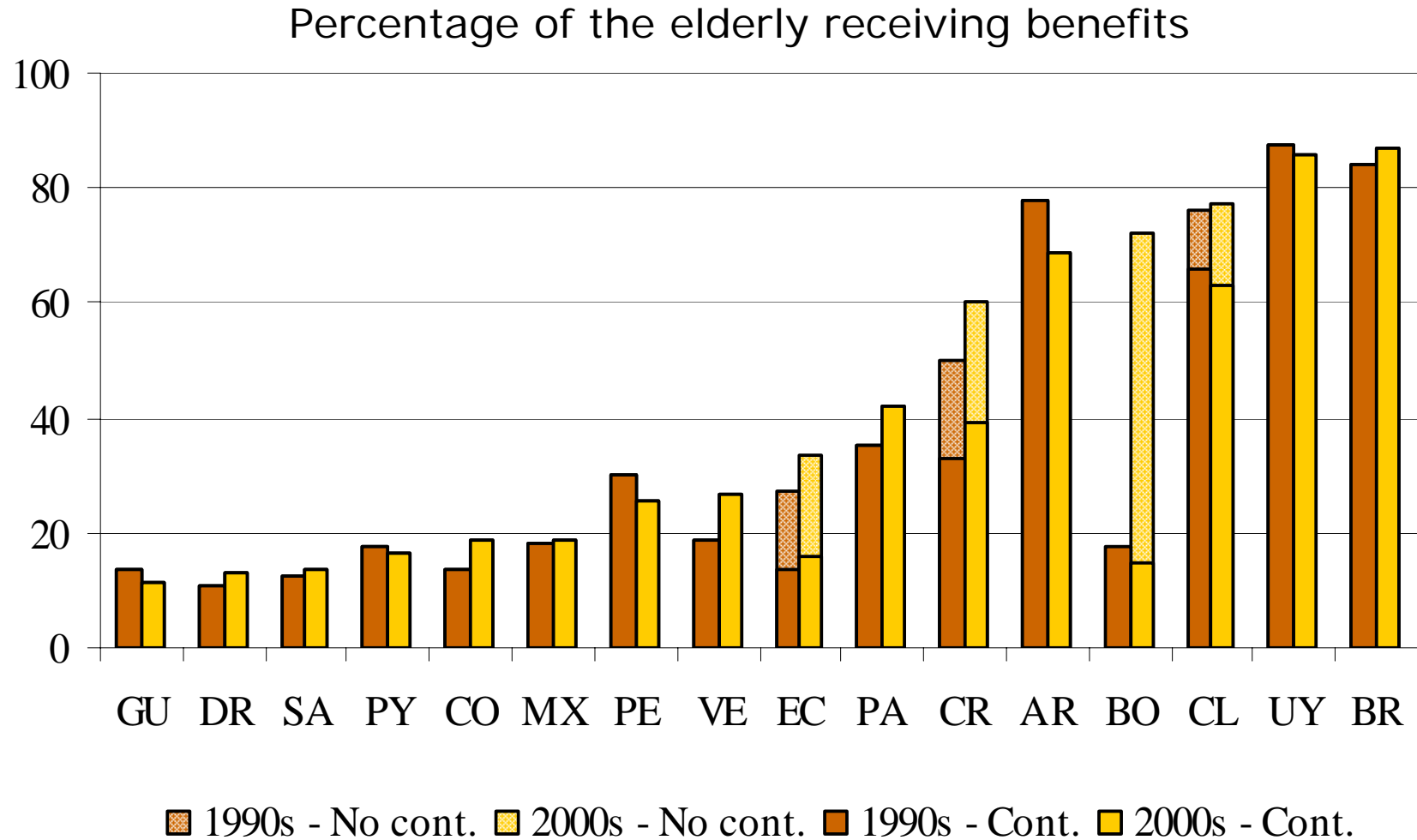
- ❑ Policy makers in Latin America's middle income countries increasingly express a desire to extend old-age income security more broadly to their citizens
- ❑ A sense of frustration at low – and stagnant – levels of coverage via traditional contributory pension programs
- ❑ This lack of progress, combined with political developments in the region (e.g., deepening of democracy, concerns with high inequality), are leading policy makers to consider alternative vehicles for increasing old-age income security, including via social pensions
- ❑ Are there lessons from the South African and Chilean cases that can be applied to (the non-Chilean parts of) Latin America?

# A Focus on Poverty Reduction/Prevention or Universal Coverage?

---

- ❑ Prof. Asher focuses on two countries – South Africa and Chile – that aspire toward universal coverage through different mechanisms
- ❑ While an admirable goal, is this realistic for most MICs in Latin America in the near term?
- ❑ There is a high degree of heterogeneity among Latin American MICs – in the state of the pension system, in coverage, administrative capacity, and fiscal space
- ❑ In the face of fiscal (and administrative) constraints countries also face important trade-offs – e.g., between investments in old-age income security vs. education vs. healthcare vs. growth-enhancing infrastructure...
- ❑ In this context, are more targeted poverty prevention approaches more appropriate than efforts to attain universal coverage – at least in the near term?

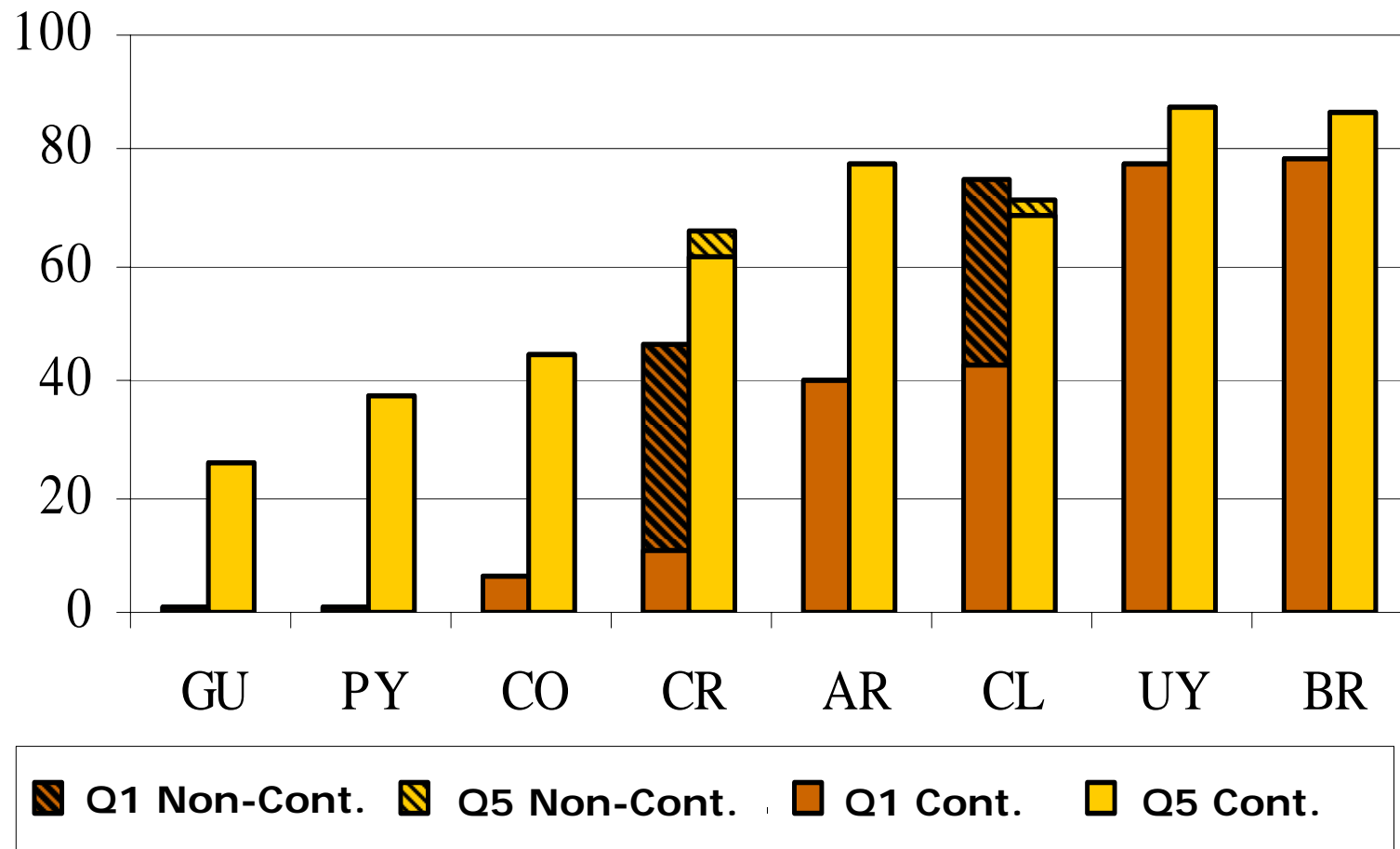
# Coverage rates among the elderly are low in many countries – but social pensions help in several cases



Source: Rofman and Luccetti (2006)

## ... both in terms of higher and more equitable coverage

Percentage of the elderly in quintiles 1 and 5 receiving benefits



Source: Rofman and Luccetti (2006)

# Latin America MICs face multiple challenges in closing the coverage gap via social pensions

---

## □ Affordability/Sustainability

- The Brazil BPC program estimated to cost 0.5-0.7 percent of GDP, but total redistributive pensions (including rural pension scheme) estimated at 2.0 percent of GDP
- In some countries (e.g. Brazil, Colombia) benefit levels are tied (constitutionally) to minimum wage, which is high and rising in real terms

## □ Administrative Capacity

- Weak information and administrative systems (almost everywhere?!)
- Weak targeting mechanisms, even in countries with decent administrative capacity (e.g., Costa Rica)

## □ Integration with Other Parts of the “System”

- Several countries already implement multiple programs with different rules for different segments of the population (e.g. Colombia)

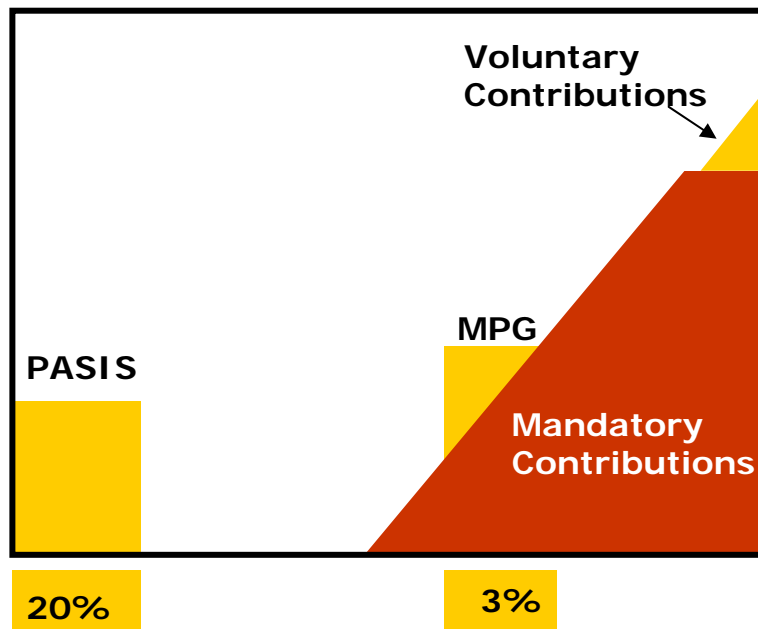
## □ Program Incentives

- Incentives for retirement savings (e.g., for opting in or out of contributory systems)
- Incentives to labor supply, retirement choices

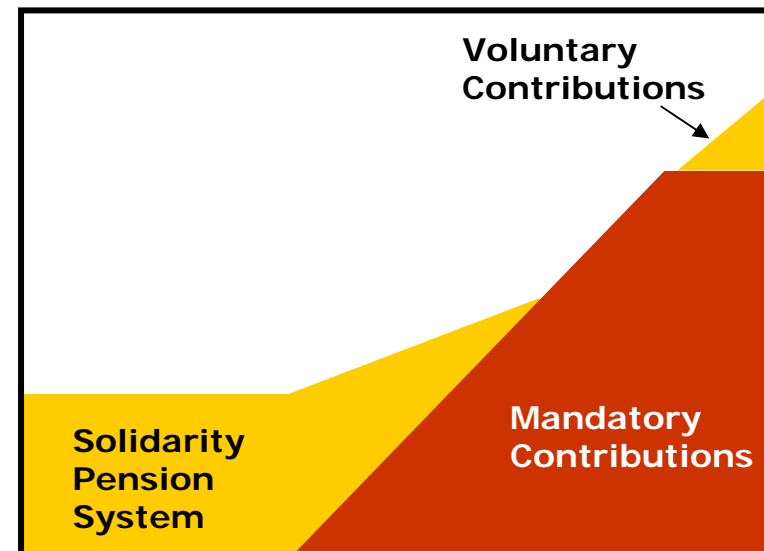
# Closing the Gap in Stages – The Real Lesson from Chile?

---

Chile's Longstanding System



New Solidarity System



# Experiences with Social Pensions in Middle Income Countries (MICs): Reflections in the Latin American Context



World Bank-Hitotsubashi-MOF Workshop on  
Closing the Coverage Gap  
The Role of Social Pensions  
MITA Kaigisho, Tokyo

Andrew D. Mason  
The World Bank  
February 21, 2008