

# Factors Determining Enrollment in Contributory Pension Programs: Evidence from Latin America



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 22, 2008

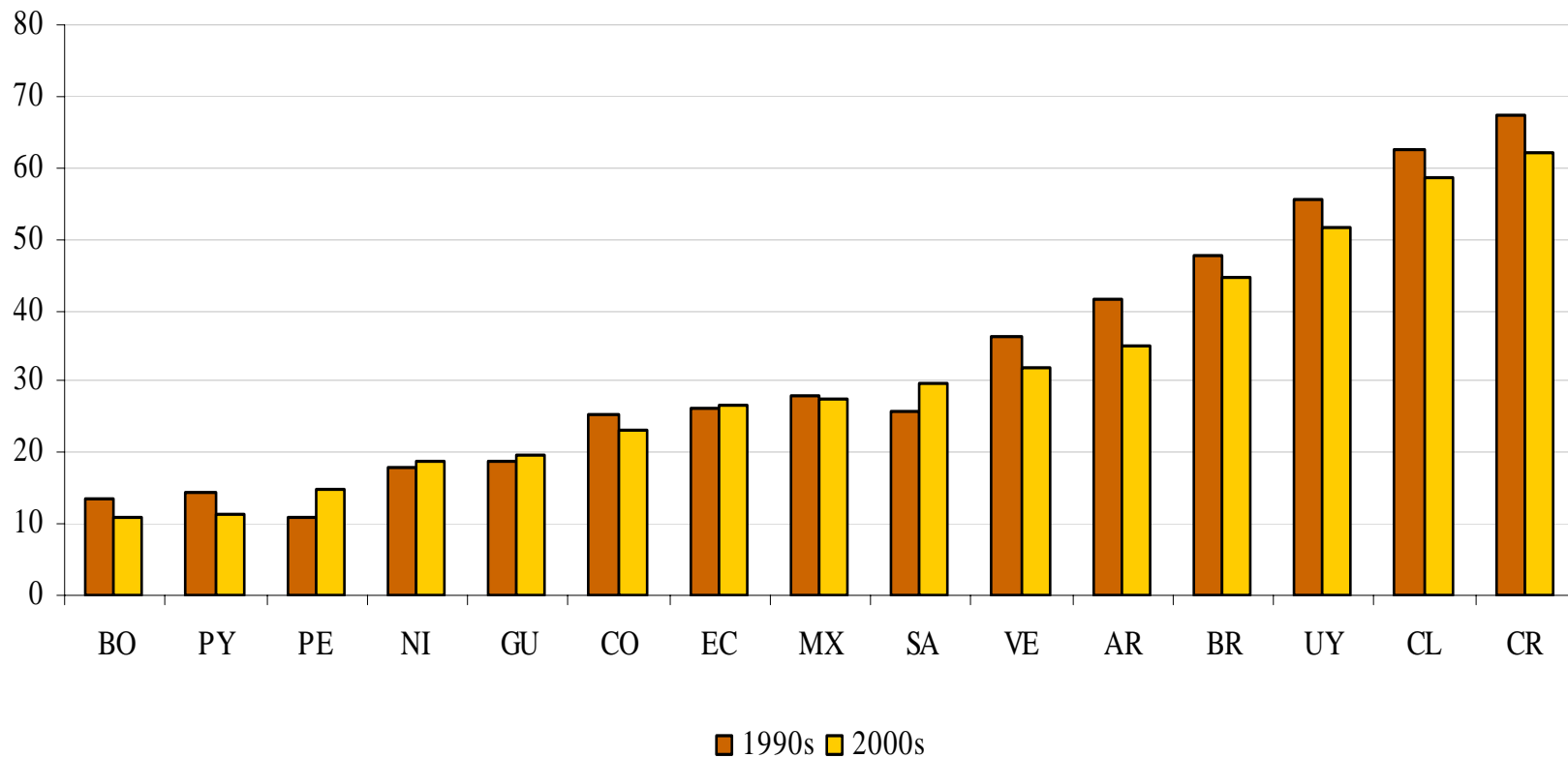
# Presentation Outline

---

- Context – Low Pension Coverage in Latin America
- Individual Determinants of Pension Program Participation
  - The Correlates of Pension Program Participation
  - Self-Reported Reasons for *Not* Participating
- Labor Market Determinants
  - Labor Informality in Latin America: “Exclusion” and “Exit”
  - Unintended Effects of Policy and Program Design
- Finding the Way Forward

# Participation in contributory pension programs remains low in Latin America

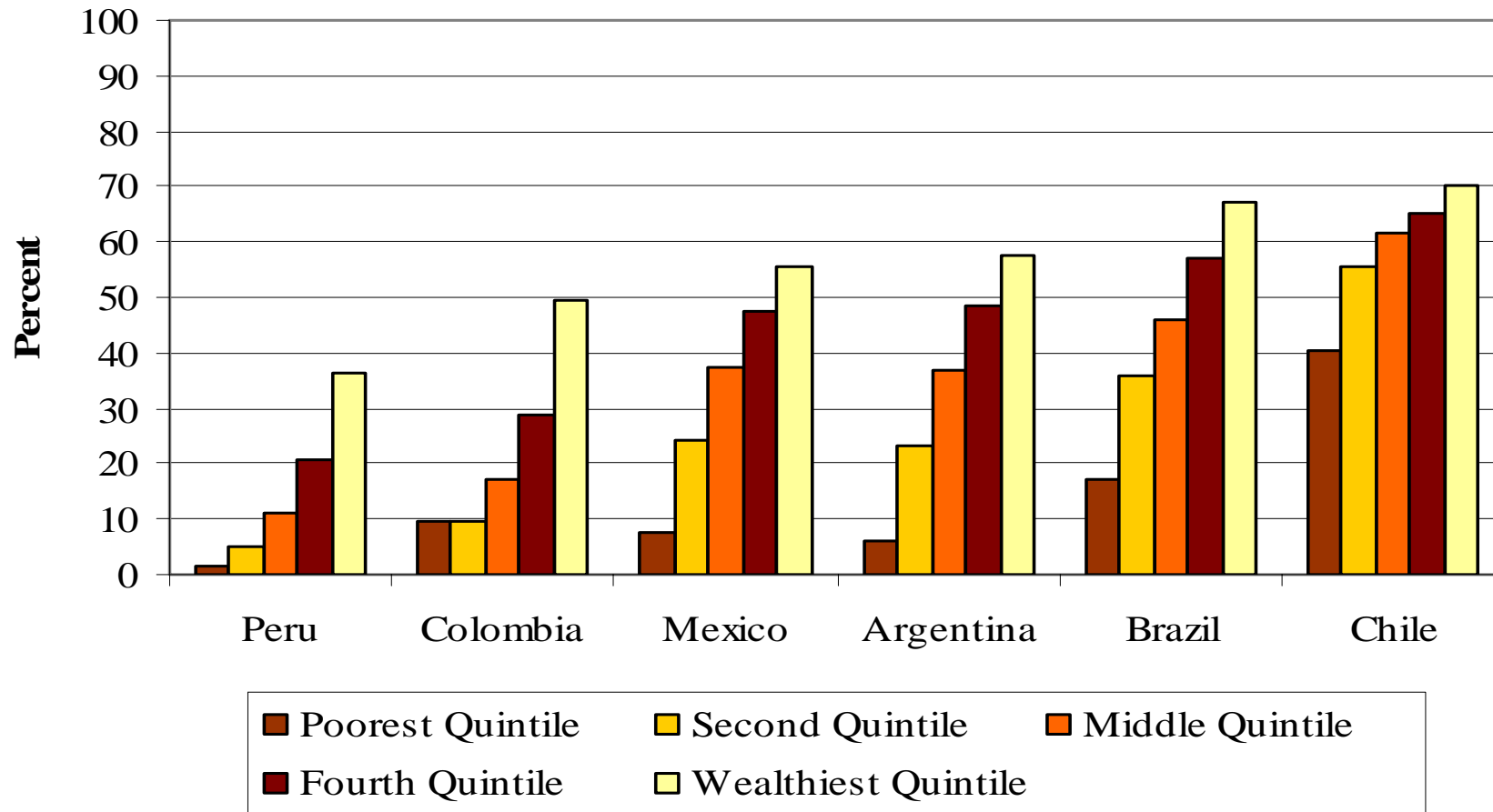
Participation Rates among the Economically Active Population, 1990s and 2000s



Source: Rofman and Luccetti (2006)

# The working poor have significantly less access than the non-poor

Participation Rates for the Employed Workers, by Income Quintile



Source: Adapted from Rofman and Luccetti (2006)

# Correlates of Pension Program Participation: Argentina, Bolivia, Colombia, Dominican Republic

---

## □ Individual-level

- Education + (AR, BO, CO, DR)
- Age + (AR, CO, DR)
- Male + (AR, CO) - (DR)
- Income<sup>#</sup> + (CO)
- Urban<sup>#</sup> + (CO)
- Ethnic Minority - (CO)

## □ Job-level

- Self-employment - (AR, BO, CO, DR)
- Job Tenure (< 1 yr) - (AR, BO, DR)

## □ Firm-level

- Firm size + (AR, BO, CO, DR)

## □ Sector-level\*

- Construction - (AR, CO, DR)
- Agriculture - (BO, CO, DR)
- Trade - (AR, DR)
- Transport/Comm. - (DR)
- Finance - (AR)
- Manufacturing - (CO)
- Public Admin. + (AR, BO)

# Analyzed only in CO

\* Omitted category manufacturing in AR, DR, industry in BO, and "other" in CO

# The Main Reasons Informal Workers Say They Do Not Contribute to Pensions

Reason	Argentina		Bolivia		Colombia		Dominican Republic	
	Salaried	S-E	Salaried	S-E	Salaried	S-E	Salaried	S-E
Cannot afford it	--	76.0	25.4	26.0	55.8	74.8	22.9	51.2
Unaware of right/how system works	n/a	n/a	42.1	55.3	n/a	n/a	5.2	19.4
Employer only offered this job	95.5	--	23.7	--	11.8	0.6	21.0	--
Employer does not require it	n/a	n/a	n/a	n/a	13.4	1.3	n/a	n/a
Most jobs are like this	n/a	n/a	n/a	n/a	4.6	1.8	15.7	--
Lack of trust in system	--	4.3	6.9	15.4	2.0	6.2	2.4	5.6
Prefers higher earnings	4.5	1.7	n/a	n/a	1.7	1.3	11.8	1.8
Children/spouse will look after	n/a	n/a	n/a	n/a	0.3	2.1	0.6	10.1
Too young	n/a	n/a	n/a	n/a	3.8	2.4	5.0	3.4
Prefers own savings	n/a	n/a	n/a	n/a	0.8	2.5	4.3	2.3
Not worth it	--	3.0	n/a	n/a	n/a	n/a	2.9	1.9
Other	--	15.0	1.9	3.3	5.8	6.9	8.3	4.5

Source: Adapted from Perry et al (2007)

# More Reasons for Not Contributing: Focus Group Findings from Bogotá, Colombia

---

- ❑ Low- and middle-income workers highlight the issue of *affordability*, their inability to make regular pension contributions given the levels – and variability – of their incomes
- ❑ Many indicated that, even if they were able to save, they would rather use the money for *more immediate needs*, e.g., investment in their own enterprise, housing, children's schooling, etc.
- ❑ Several highlighted a *preference for more flexible (voluntary) savings instruments* that could be used for either short- or longer-term needs
- ❑ Several respondents noted
  - A *lack of confidence* in the Government and skepticism that they would ever see their contributions (if made) in the future
  - *Concerns about fairness*, specifically that informal workers don't get matching contributions while formal employees do
  - A *lack of information and understanding* of how the pension system works and how to contribute

# Informality in Latin America: “Exclusion” but also “Exit”

---

- ❑ In addition to understanding the individual factors, it is critical to understand the nature of labor informality if one is to understand why so many workers do *not* participate in contributory pension programs
- ❑ There is evidence supporting the traditional view that *some informal workers are excluded* from formal sector jobs (and, hence, largely from contributory pension programs) ...
- ❑ ... but the evidence also highlights that *many informal sector workers and firms “opt into” informality* (Perry et al 2007)
- ❑ Both “Exclusion” and “Exit” are *shaped by policy- and program-related factors* (e.g., labor regulations, the design of social security programs, etc.)



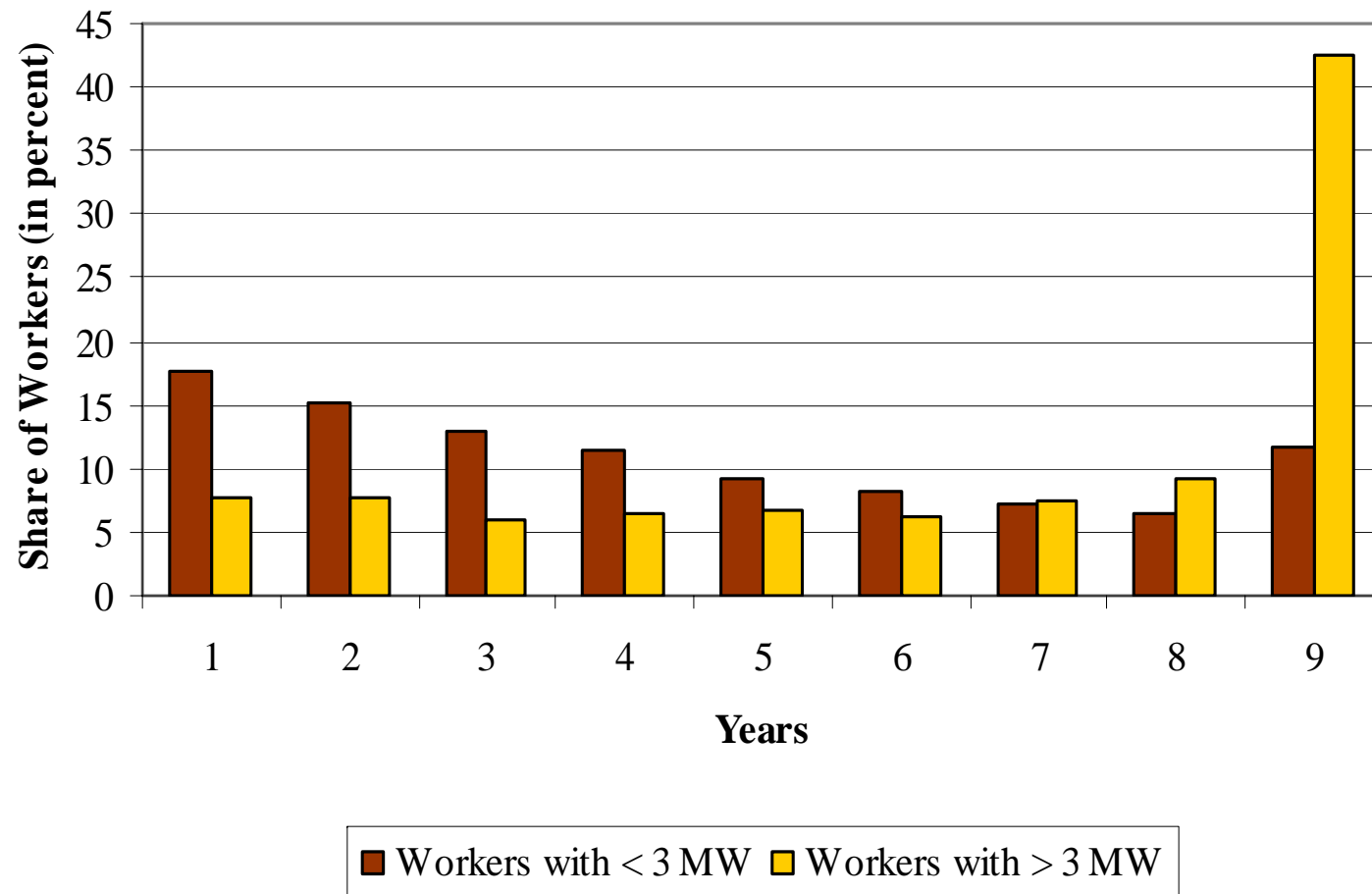
# Unintended Effects of Policy and Program Design

---

- *Labor market policies* can induce informality, making pension access more difficult
  - High minimum wages (e.g., Colombia, Costa Rica)
  - High costs of payroll taxes (e.g., Colombia, Mexico)
- *Design features of social security* can raise the perceived costs and lower the perceived benefits of participation, e.g.:
  - Excessive “bundling” of benefits (not only pensions, health insurance and disability, but also childcare, housing benefits, training, sports and recreation facilities, etc.)
  - Rigid “one-size-fits-all” schemes (same rules for young and old, despite different preferences)
  - Lack of accounting for labor mobility in and out of the formal sector (onerous vesting periods)

# Pension design is not consistent with patterns of labor mobility in-and-out of the formal sector (I)

Distribution of Workers' Years Insured by IMSS, Mexico, 1997-2005

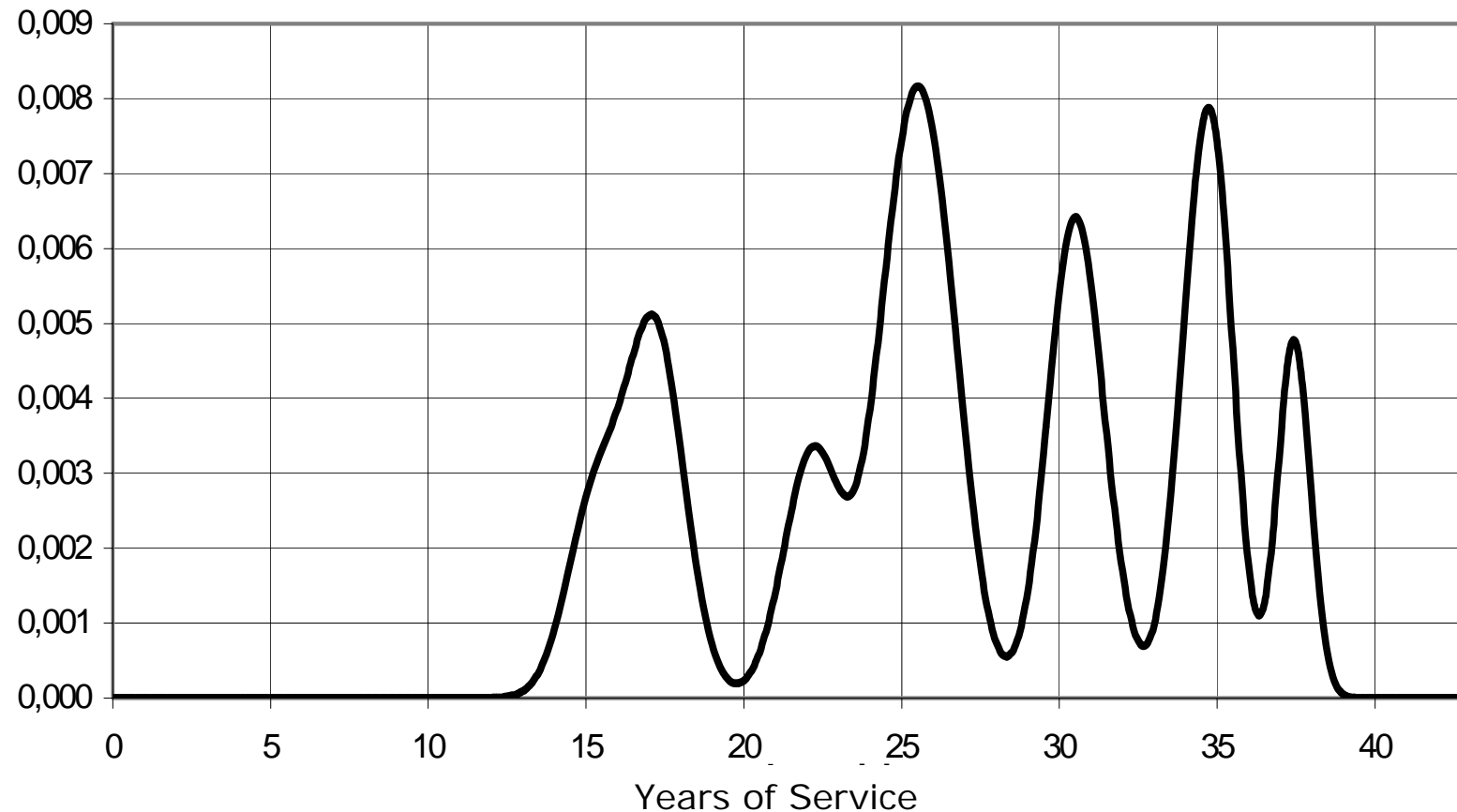


Source: Adapted from Razu (2006) as presented in Levy (2006)

# Pension design is not consistent with patterns of labor mobility in-and-out of the formal sector (II)

---

Density function for years of formal sector work among 60-year olds in Uruguay  
(accumulated from age 18 to 60)



Source: Bucheli et al (2006)

# Finding the Way Forward

---

- Increasing pension coverage in Latin America, including among the poor, will require *a multi-faceted approach* that includes, but also looks beyond, the strengthening of contributory pension schemes
- Making progress will require *addressing the underlying causes of informality*, taking into account both forces of “exclusion” and “exit”, e.g.:
  - Improving the labor market regulatory environment (e.g., high payroll tax burdens, minimum wages)
  - Addressing the program design issues that affect workers’ (and firms’ assessment of the relative costs and benefits of being formal (e.g., bundling and quality of benefits, rigid program rules, etc.)
- It will also require *confronting the critical barriers to pension participation faced by poor workers* – i.e., lack of ability to save, lack of knowledge about pensions, the need/desire for flexibility, etc.

# Factors Determining Enrollment in Contributory Pension Programs: Evidence from Latin America



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 22, 2008