PENSION SYSTEMS INDICTORS

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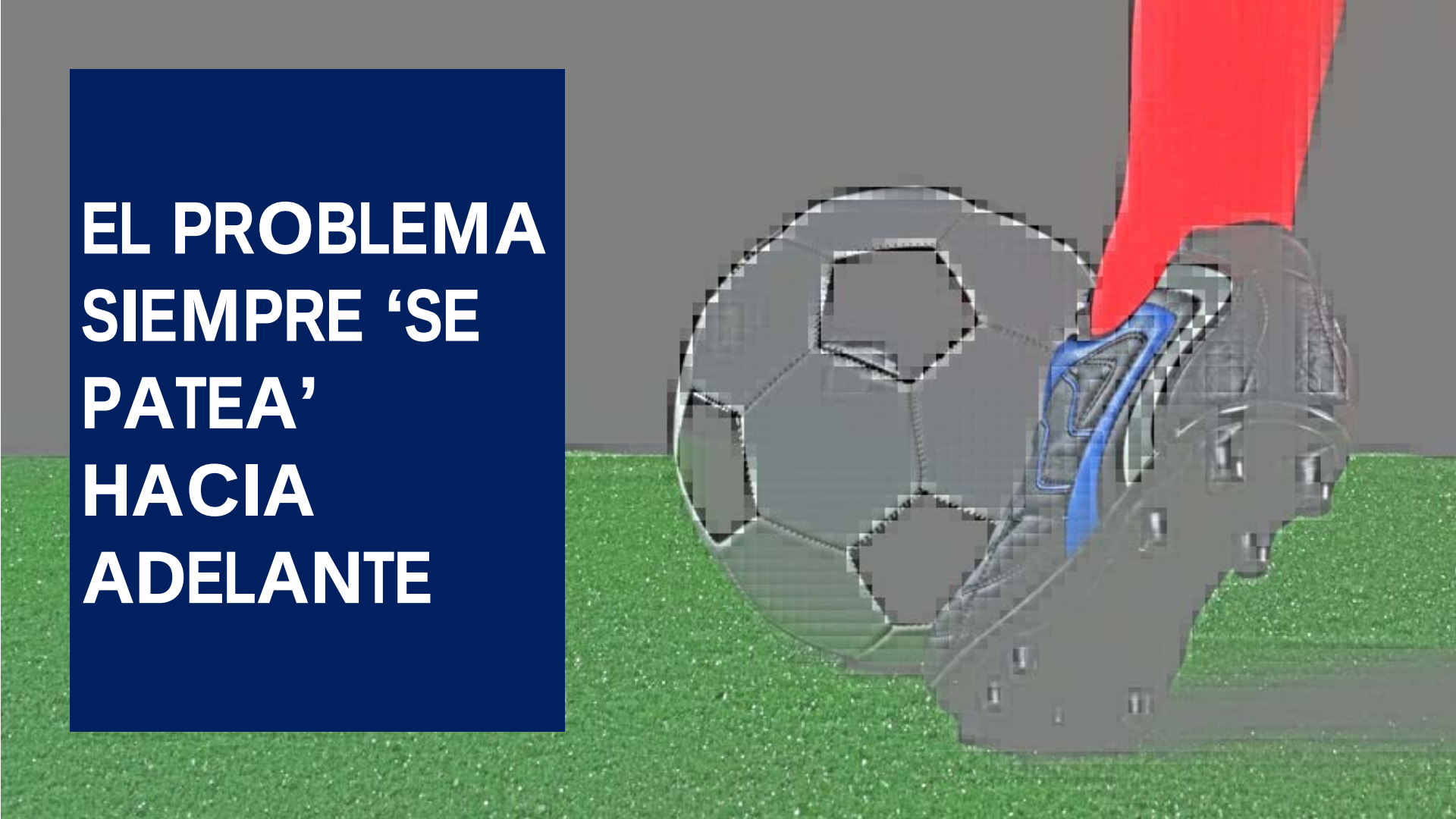
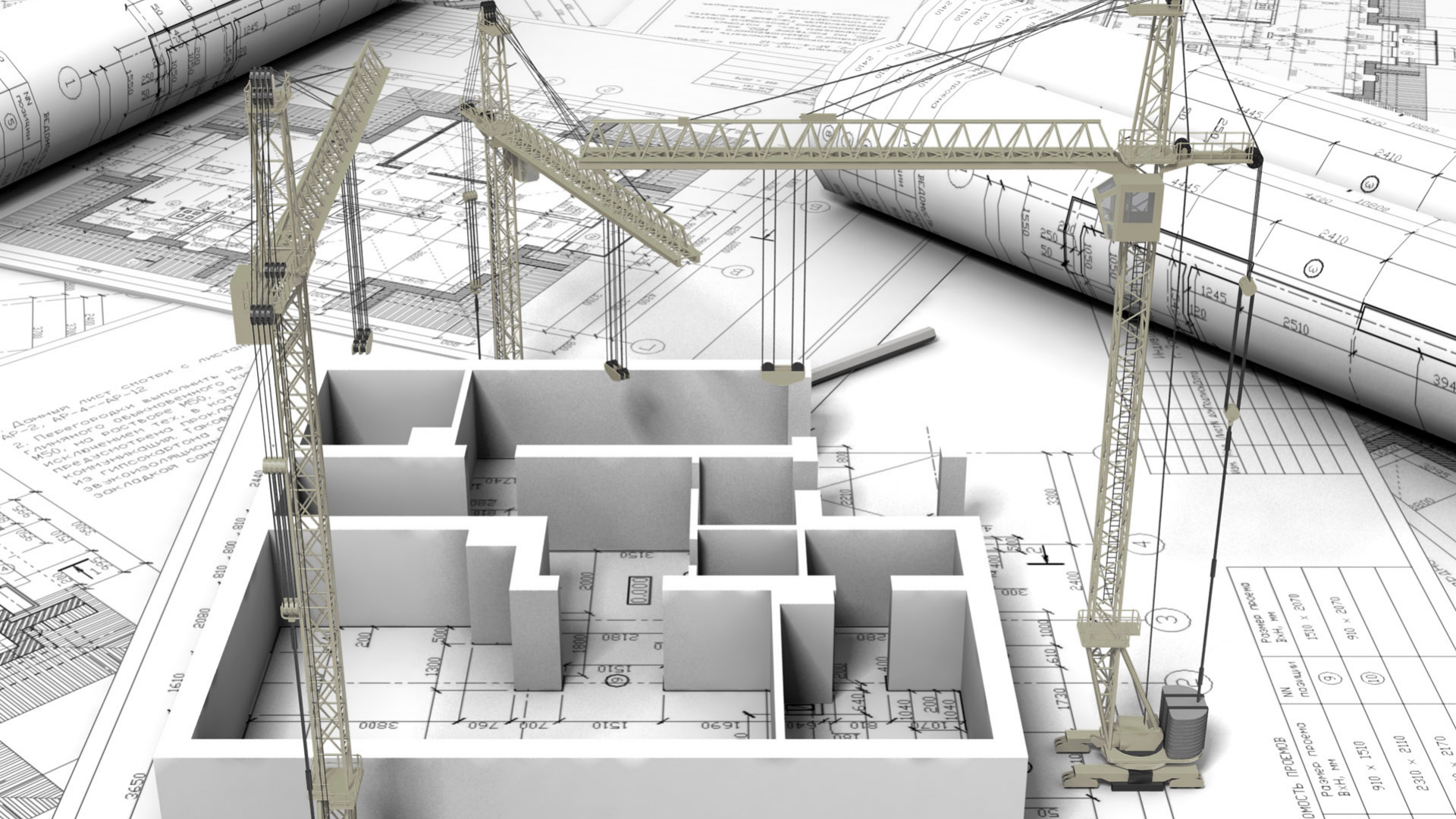
Pension systems in LAC

- **Low coverage** mainly driven by high informality
- **Low replacement rates**
- **High pension expenditure** as % of GDP
- Societies **poorly prepared** for retirement

Y, sin embargo, esto no es lo más preocupante

EL PROBLEMA SIEMPRE ‘SE PATEA’ HACIA ADELANTE





Background

- Need of data to have a **meaningful debate** about pensions in the region.
- Current pension indicators:
  - Dispersed
  - Methodological differences (not comparable)
  - Different sources of data

The IDB has been part of the region's efforts

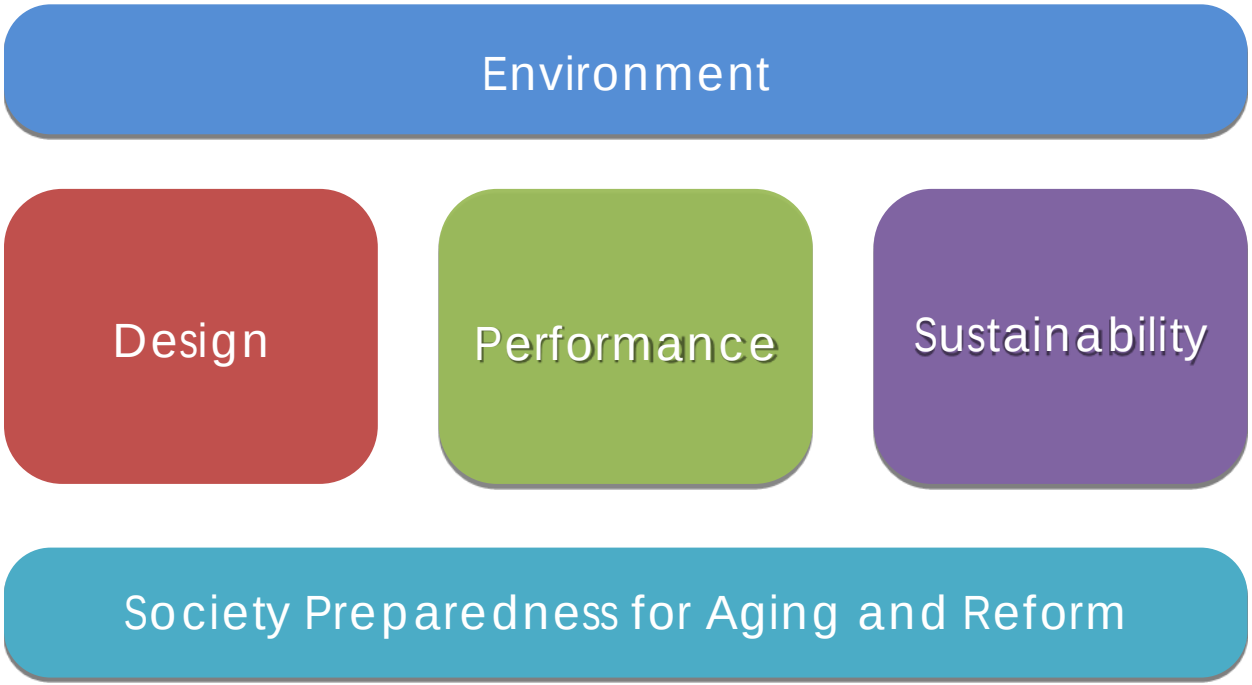
RedPLAC

RED DE PENSIONES EN AMÉRICA LATINA Y EL CARIBE

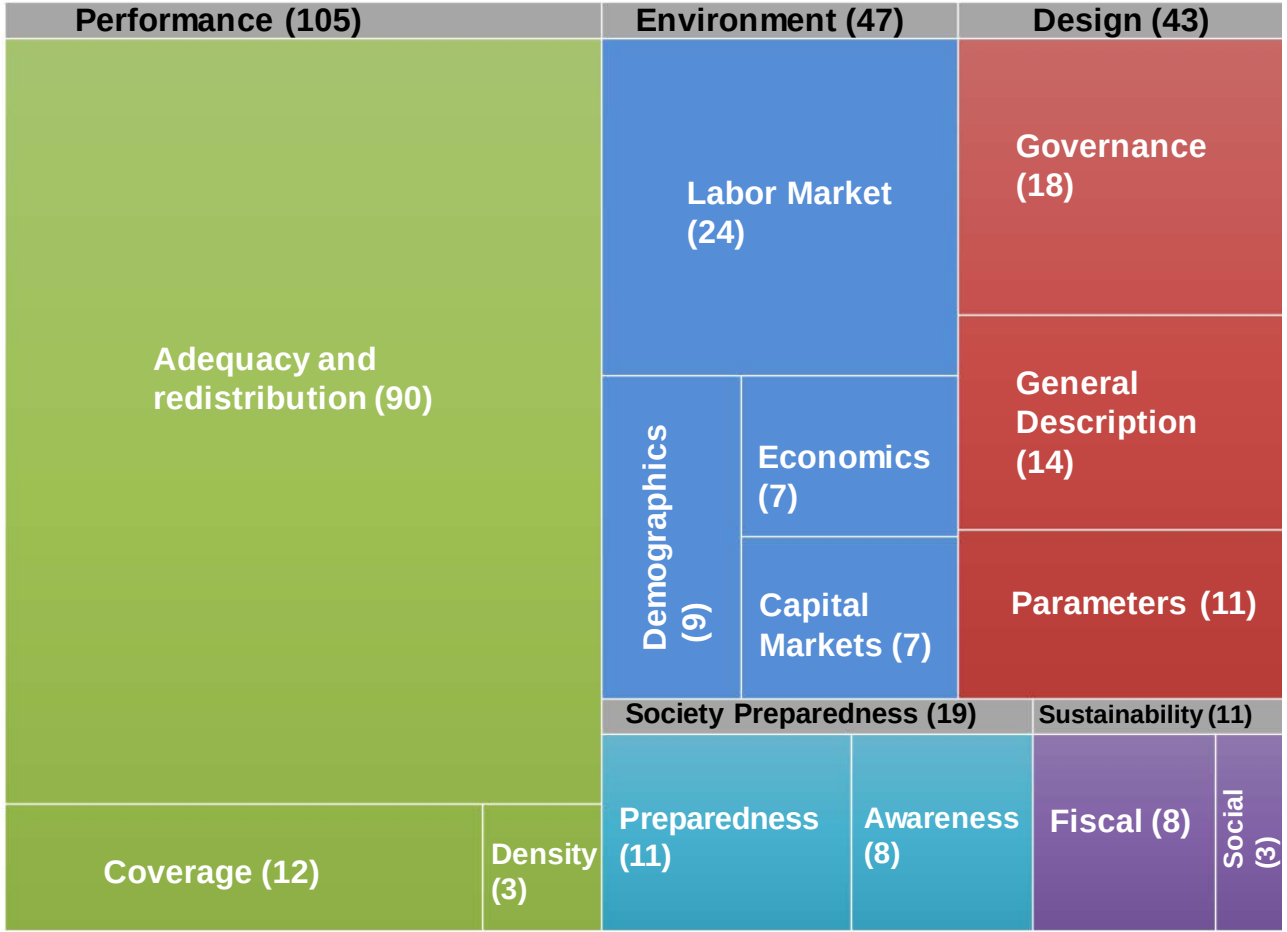
IDB Pension Indicators

Need	To fill the data gap by constructing a comparable and comprehensive set of pension indicators
Objectives	1. Create a conceptual framework to guide what type of data is needed and how to structure it 2. Identify what information is missing and create a platform to share and update the data
Sources	• Social Protection Longitudinal Surveys (SPLS or ELPS) • IDB's Labor Markets and Social Security Information System (SIMS) • Ministries of Finance, regulators and official data

IDB Pension Indicators



5 Dimensions



225 Indicators

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Environment

Context and the **main trends** affecting the pension system, such as:

-Demographics

-Macroeconomic performance

-Labor and capital markets

Demographics:

- Fertility rate
- Life expectancy at birth
- Life expectancy at 60
- Life expectancy at 80
- Dependency ratio

Economics:

- GDP per capita
- GDP growth
- Inflation rate
- National savings rate

Labor Market:

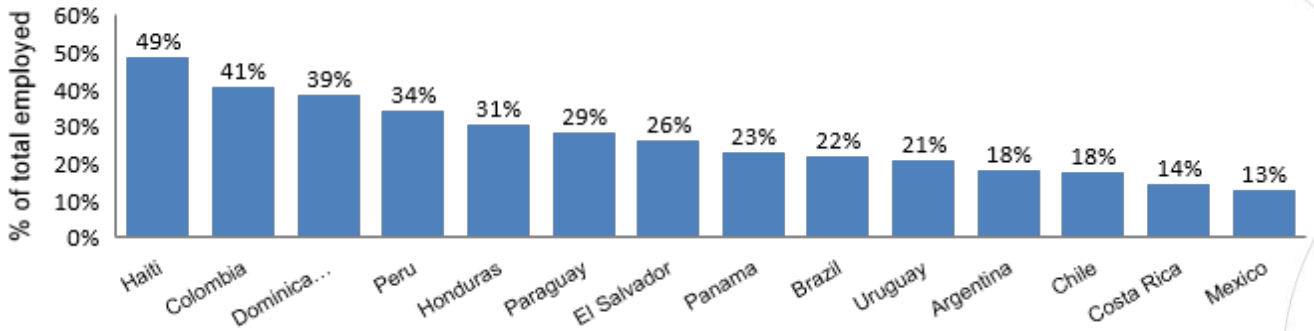
- Labor force participation
- Youth labor participation
- Prime-age labor participation
- Old-age labor participation
- Informal labor

Capital Markets:

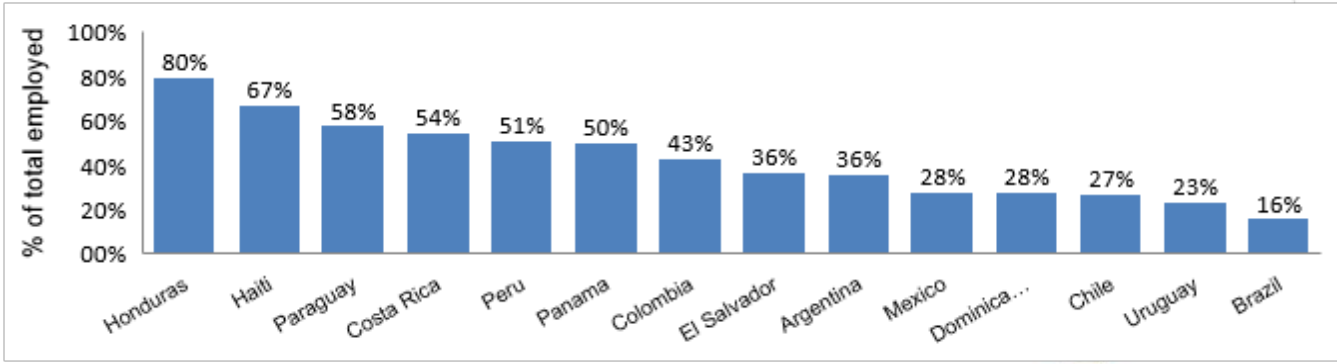
- Domestic credit by banks
- Deposits to GDP ratio
- Insurance assets to GDP
- Stock market capitalization
- Pension fund assets to GDP

Environment

Self-employed, total



Workers at or under minimum wage



Source: SIMS database, IDB.

Design

General characteristics of the system, as well as information on relevant parameters:

-Contribution rates

-Legal retirement age

-Vesting periods

General description:

- PAYG and Fully-Funded systems
- Voluntary savings
- Special pensions
- Tax incentives for savings

Parameters:

- Contribution rates
- Retirement age
- Wage ceilings
- Indexation rules
- Contribution requirements

Governance:

- Multi-Funds
- Equity
- Investments abroad
- Foreign investments
- Fees for fund management

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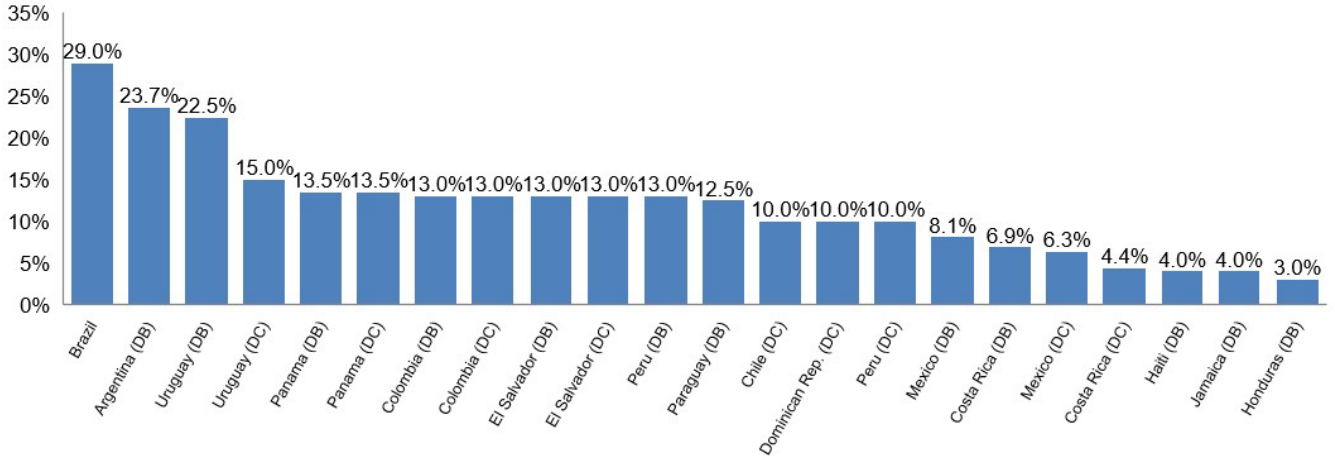
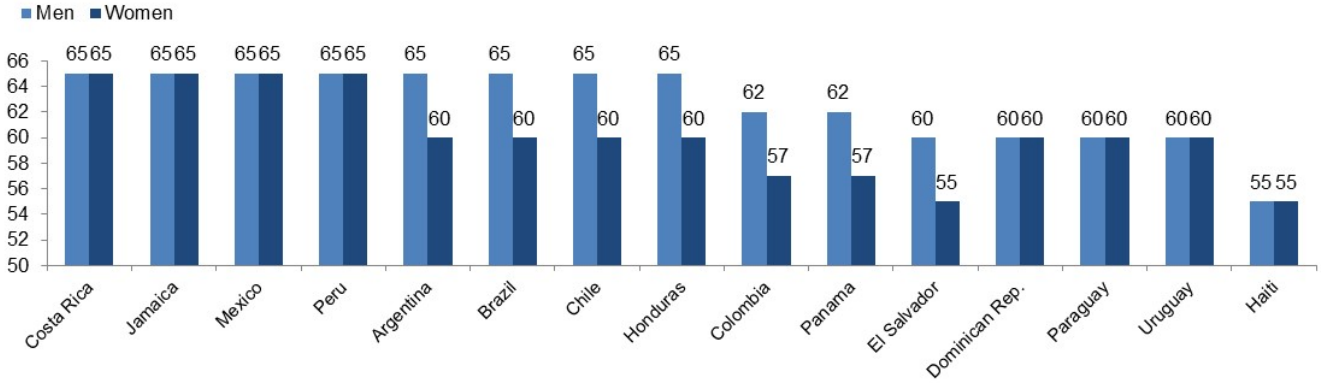
Design

Average total contribution rates (Employer + Employee)



Retirement age



Source: Social Security Administration (Social Security Programs Throughout the World: The Americas, 2015).

Performance

Information on the effective **results of the pension system**, including:

-Active and passive coverage

-Contributions density

-New indicators about adequacy and redistribution

Coverage:

- Pension contributors
- Contributory pension recipients
- Non-contributory pension recipients

Contribution density:

- Total rate of contribution density
- Women's contribution density
- Men's contribution density

Adequacy and redistribution:

- Replacement rates*
- Implicit rates of return*
- Implicit subsidies/taxes*

*Density and income dependant

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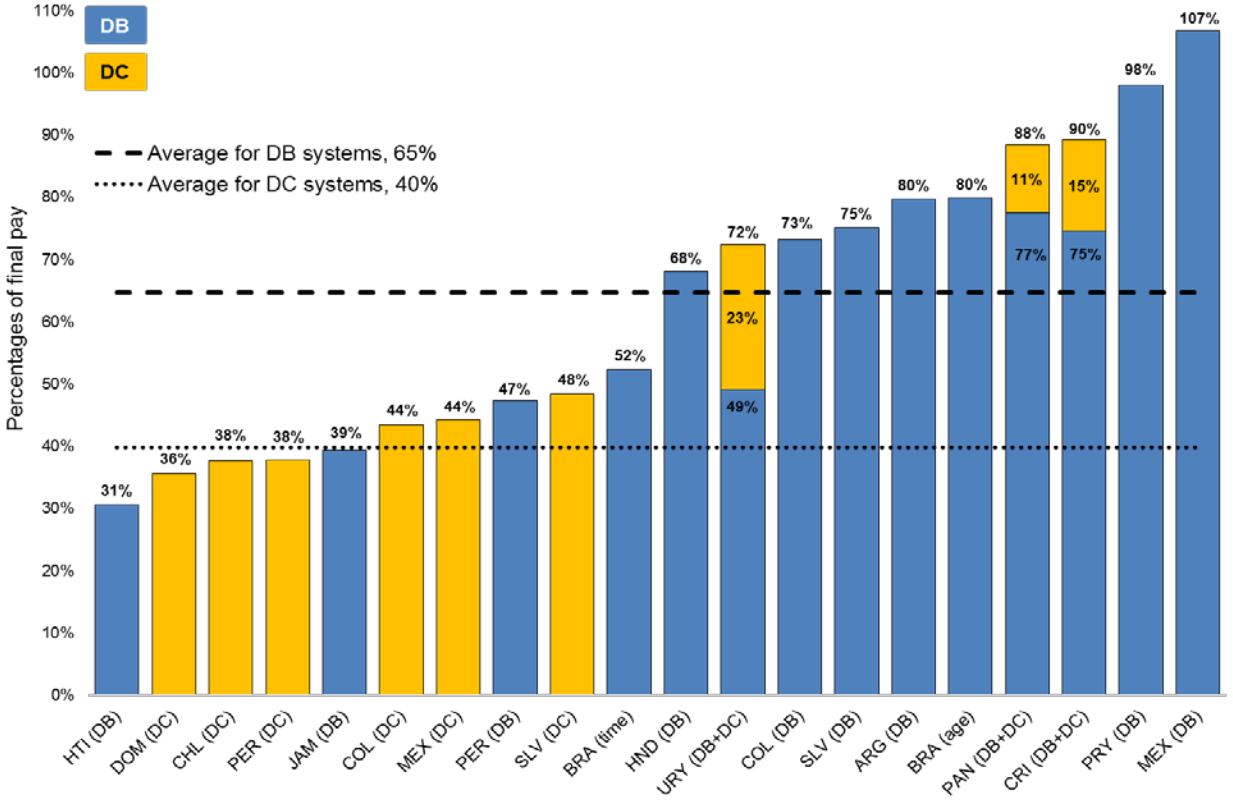
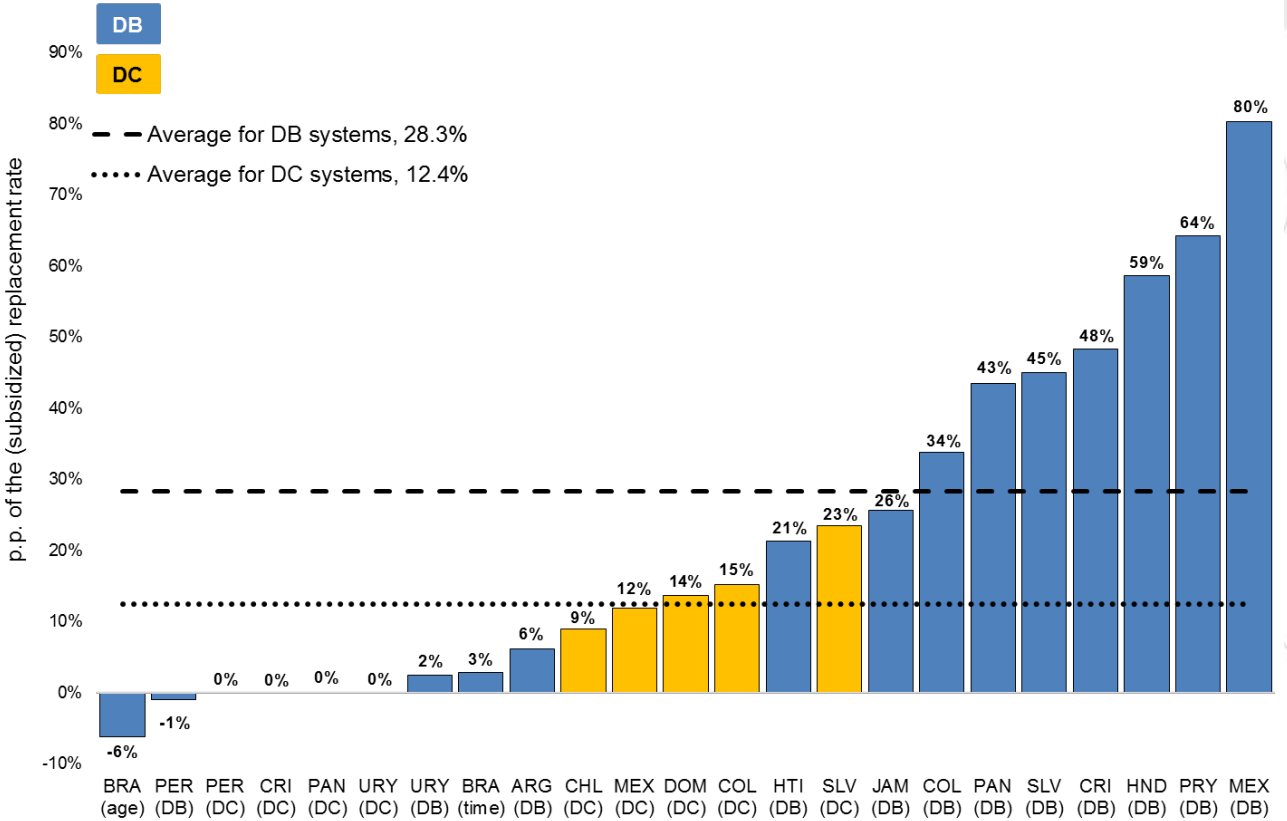
New indicators: Replacement rates



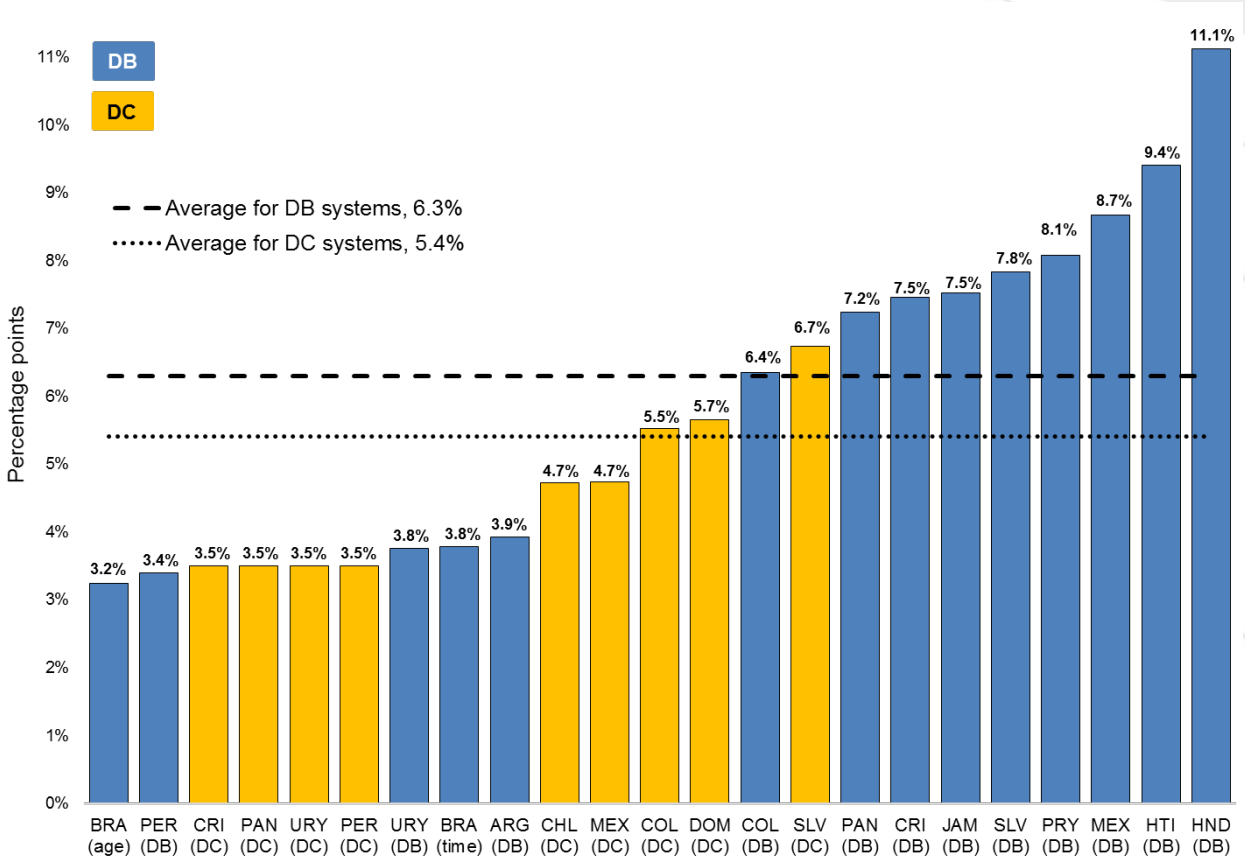
Source: IDB Flagship

New indicators: Subsidies/Taxes as % of replacement rates



Source: IDB Flagship

New indicators: Implicit rates of return



Source: IDB Flagship

Sustainability

Indicators on the fiscal and social viability of the pension system under the current situation, given the current demographics and the current legal parameters of the pension scheme.

Fiscal:

- Pension spending projections
- Contribution projections
- Pension Superavit (Deficit)
- Pension Fund Assets, % GDP

Social:

- Projected replacement rates
- Adjusted replacement rates

Preparedness for Aging and Reform

Financial literacy and knowledge of retirement systems, as well as a set of some broader indicators of elderly welfare.

Awareness:

- Statutory retirement age awareness
- Contribution rate awareness
- Pension formulae awareness
- Fee charged awareness

Preparedness:

- Old-age poverty rates
- Educational attainment
- Co-residency
- Family size
- Financial wealth
- Homeownership

The database

O24

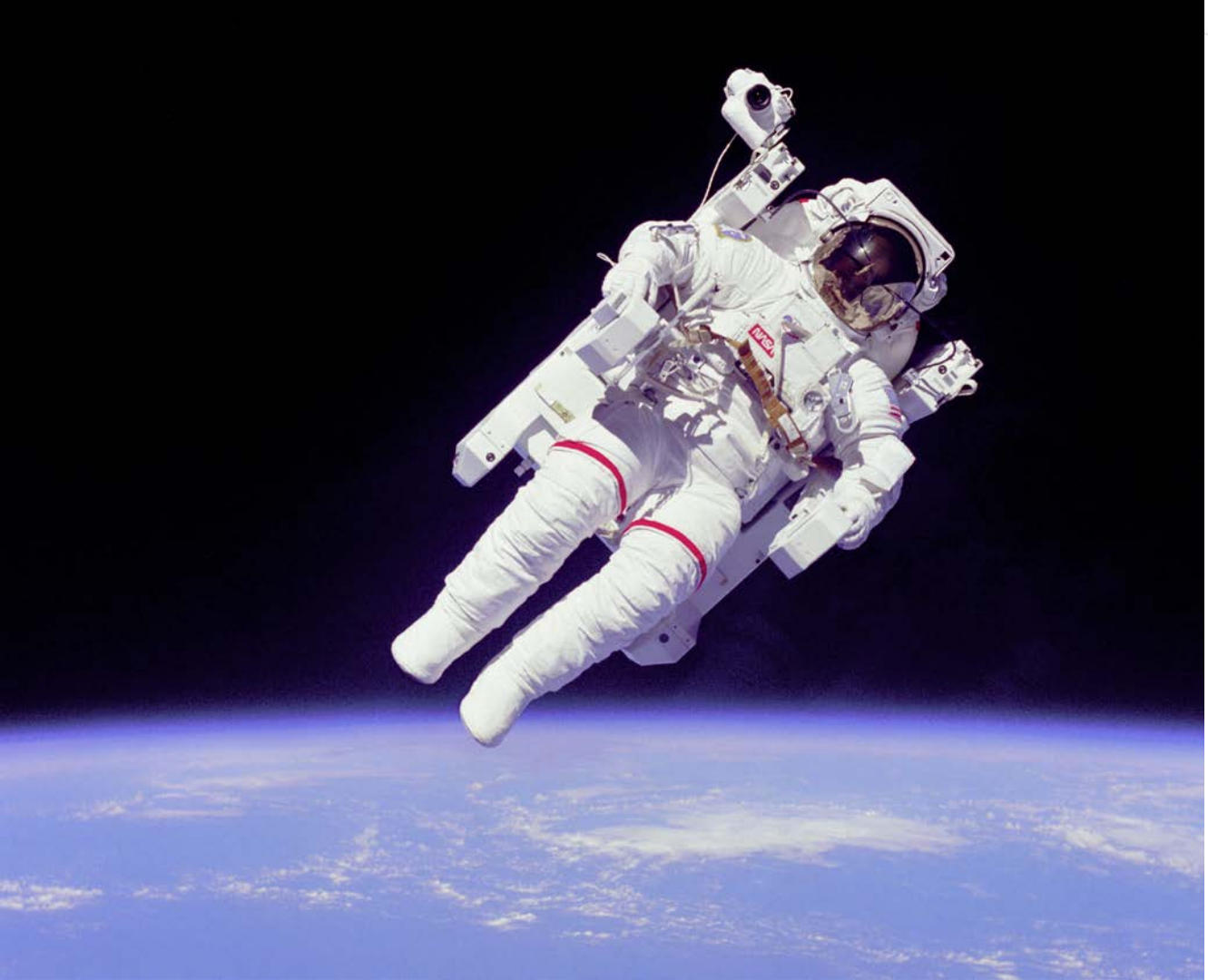
Inter-American Development Bank

Pension Indicators for Latin America and the Caribbean

Table of contents

1. Enviroment (Demographics, Economics, Labor Market, Capital Markets)
2. Pension Design (Description, Parameters, Governance)
3. Performance (Coverage, Contribution Density, Adequacy and Redistribution)
4. Sustainability (Fiscal, Social)
5. Society (Awareness, Preparedness)

Table of Contents | Environment | Pension Design | Performance | Sustainability | Society F ...



Houston, we have a problem!

Main takeaways

- What we have reached so far:
  - √ **Solid conceptual framework**
  - √ Probably the **largest pension dataset** in the region with novel indicators
  - √ **Countries and institutions involved**

- **Still a lot of work to be done!**
  - × We were **unable to collect all data** (particularly difficult fiscal/actuarial data)
  - × We need to think about how to **project** key indicators

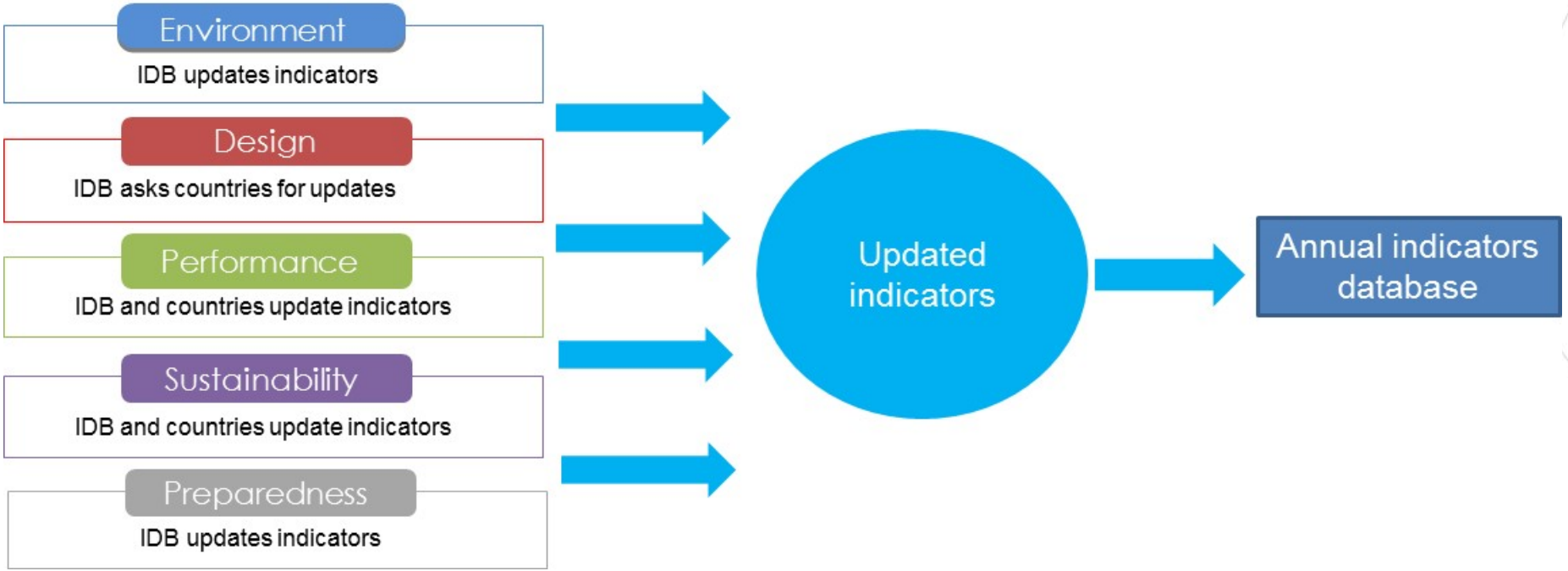
We are starting phase II…

- March meeting in Washington, DC:
  - √ Comments by Advisory Board, countries and partner institutions
  - √ **Agreement on continuation of the project with countries support and annual indicators updates**

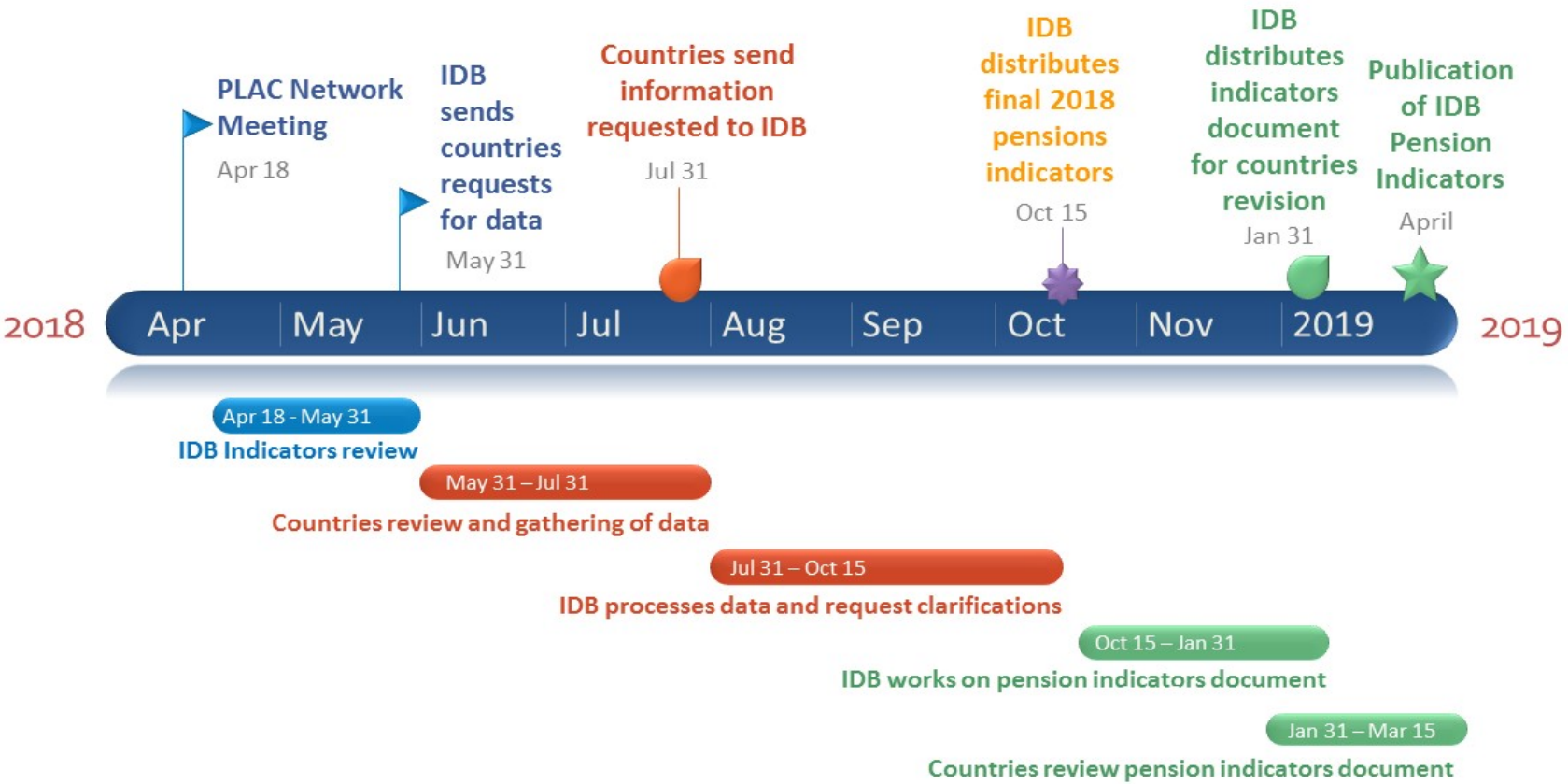
- Key areas with pending work:
  - × Sustainability dimension
  - × Forward-looking indicators (projections)

Protocol for indicators updates

PLAC NETWORK
Through countries technical contacts



Indicators updates: 2018-2019



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THANK YOU!

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