



Pension Indicators for Latin America

Comments at Final Project Meeting

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Contours of a Looming Retirement Crisis

- ❑ In countries with large informal sectors, many workers fail to contribute to the state pension system, and even when they do contribute, they do so irregularly, which means that their benefits will be inadequate.
- ❑ Low coverage is of course a long-standing problem. What's new is that the adequacy of retirement benefits is declining even for workers who contribute to state pension systems throughout their careers.
- ❑ In countries with PAYGO pension systems, governments are making deep reductions in the generosity of state retirement provision as their populations age.
- ❑ In countries with funded personal accounts systems, contribution rates are too low to finance adequate replacement rates, especially in today's low return environment.
- ❑ For most retirees, alternative income sources will not be sufficient to make up for inadequate state pensions.
- ❑ Traditional family support networks are already under stress from the forces of modernization and will come under intense new demographic pressure as populations age and family size declines.
- ❑ Neither continued work nor personal savings are likely to make up the gap.
- ❑ Meanwhile, rising life expectancy puts retirees at a growing risk of outliving whatever savings they do have.
- ❑ Without reform, a large share of the workforce will reach old age over the next few decades without adequate pensions, personal savings, or families to support them.

Importance of the Project

- ❑ If policymakers are to enact constructive and effective reforms, they must know where their countries now stand on key measures of pension system adequacy and sustainability, as well as where they are heading on their current course.
- ❑ The PLAC-IDB Pension Indicators Project provides a unique and valuable resource for policymakers by assembling a wealth of data from disparate sources and presenting them on a comparable basis across Latin American countries.
- ❑ The overall design of the dataset is excellent and most of the indicators are well chosen.
- ❑ The project also breaks important new analytical ground, especially in the pension “performance” and “sustainability” modules.

Dataset Recommendations

- ❑ Periodic updates of the dataset that allow policymakers and policy analysts to track progress over time would greatly enhance its value.
- ❑ Projections of indicator values would also greatly add to the utility of the dataset and should be included wherever feasible. There are no demographic or economic projections in the “environment” module in the preliminary dataset and the projections in the “sustainability” module are largely incomplete.
- ❑ The five dataset modules are complementary, and all should be substantially complete before release. Publishing the “performance” indicators without the accompanying “sustainability” indicators would be especially misleading.
- ❑ It is essential to ensure accuracy and clarity in the calculation and presentation of the indicators. My review of the preliminary dataset identified a number of potential problems, some small and some large, which need to be addressed before release.

Indicator Issues

- ❑ Indicator dates & base year values. These are rarely if ever given. Both are critical to interpreting the results and tracking progress over time, and both should always be shown.
- ❑ Indicator definitions. These are not always clearly, completely, consistently, and accurately stated. Examples: workers under the minimum wage, rural employment share, contribution years requirements, and projected replacement rates.
- ❑ Indicator specifications. At times, indicators are clearly defined but not properly specified. Examples: Elderly poverty rates, elderly co-residence rates, change in family size.
- ❑ Data series consistency. At times, indicator values are drawn from inconsistent sources. Examples: life expectancy, effective pension coverage rates, size of informal workforce.
- ❑ Projection methodology. At times, this is opaque. Examples: DC replacement rate projections and implicit subsidy calculations.
- ❑ Puzzling indicator results. At times, the indicator results are so puzzling as to demand further explanation. Examples: implicit rate of return calculations and elderly homeownership rates.
- ❑ Problematic indicators. Some indicators seem problematic to me and might be cut. Examples: world GDP shares; notice period, severance pay, and employment protection index; and “awareness” indicators.
- ❑ Missing indicators. On the other hand, some missing indicators are too important not to include: Examples: contributory and non-contributory pension receipt rates; early and effective retirement ages; general revenue subsidies, and voluntary pension coverage rates.

Report Recommendations

- ❑ First, we need to stress the policy relevance of the project. If Latin America's pension systems were adequate and sustainable, the project would be of merely academic interest. But this is not the case.
- ❑ Second, we need to stress what's unique about the project, including the comparability of the data, the realistic modeling of diverse outcomes, and the balanced attention to adequacy and sustainability.
- ❑ Third, we need to rework the tedious and largely irrelevant discussion of other datasets and indices. Indeed, why are we talking about index methodology at all when what we are producing is not an index?
- ❑ Fourth, we need to review the discussion of indicator definitions and methodology to ensure accuracy and clarity, as well as consistency with the dataset.
- ❑ Fifth, we need to add a thoughtful discussion of the indicator results. What was expected and what was unexpected? What are the policy lessons?



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