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Too many questions (and some answers) about the pension system in Argentina

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Social Security (SS) in Argentina

- What do we know about it?
- How did SS coverage expand?
- How SS was/is/will be financed?
- What was the impact of demographic and labor market trends on SS?
- Is there any long term global perspective available?
- Which are the challenges that future pension policies face in terms of sustainability?

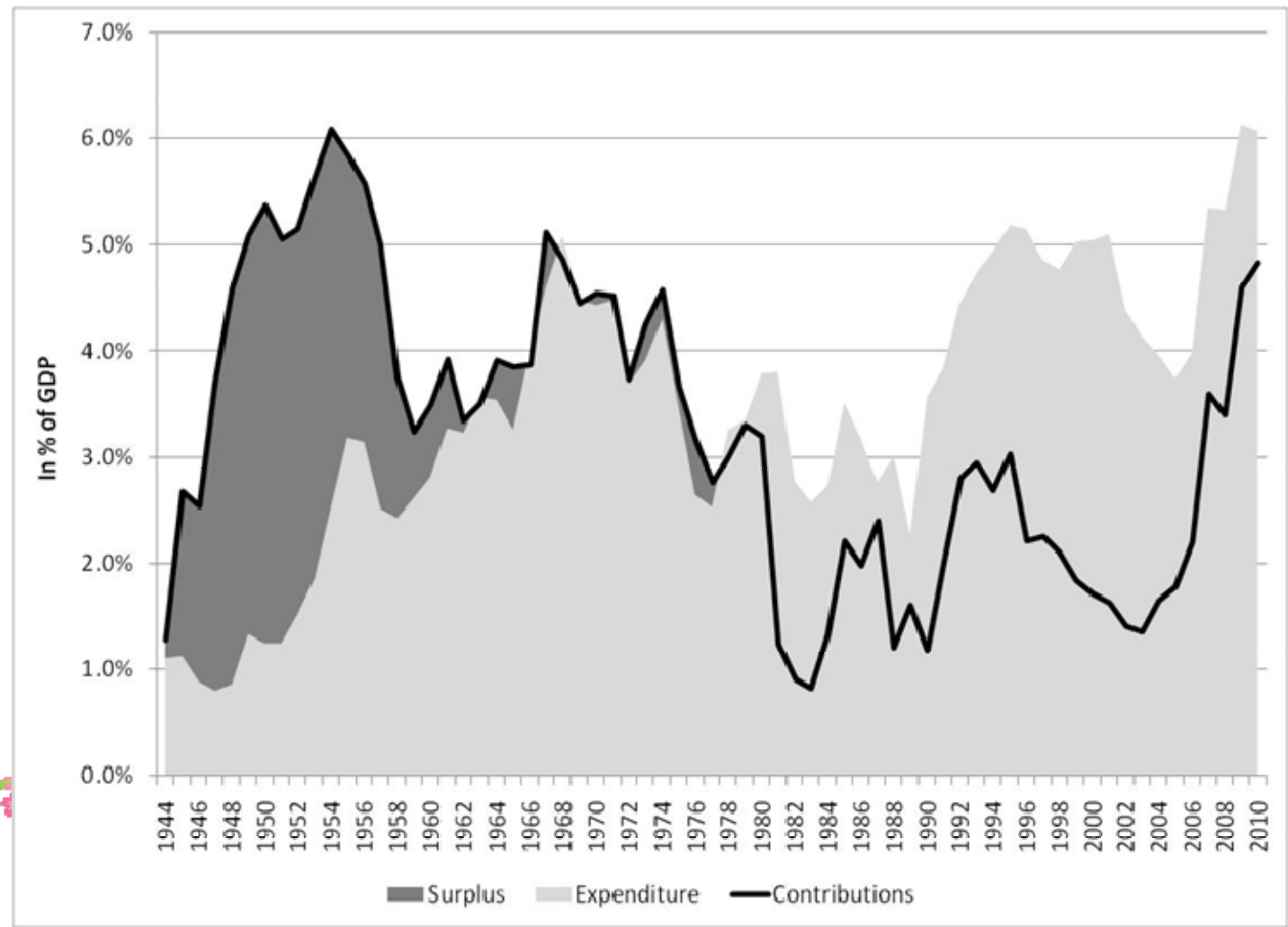


What do we know about SS in Argentina?

Argentina is a paradigmatic case in the global context due to various aspects of its economic and social development, including setting up a SS system that was modified several times and, at every moment, is the result of decisions, commitments and promises established a long time before



Expenditure in pensions and its wage-based financing, Argentine Pension System, 1944-2010



Source: Bertranou, Cetrángolo, Grushka, and Casanova (2012).

A SS long history made short

- **1900-1950: Gradual and fragmented expansion**
- **1960s-70s: Unification and relative stability**
- **1970s-80s: Significant fiscal deficit; unmet promises of high benefits gave place to administrative and judicial claims**
- **1993: Structural reform established stricter requirements and a new mixed system, a basic benefit plus and option for a fully-funded or a PAYG public regime**
- **2005-2008: “Flexible” requirements extended coverage; many legal changes ended up closing up the FF regime**



SS reforms, political and economical cycles

- Significant changes during the last decades included the introduction of a FF component in 1994 and its subsequent reversal to an assisted pay-as-you-go scheme in 2008
- After the 2001-2002 crisis, a favorable fiscal position allowed the implementation of policies that reversed the decline in coverage to unprecedented levels reaching over 90% of the elderly



Evaluation of the mixed SS system (1994-2005)

- SS coverage decreased at older ages, but also at active ages (labor market is determinant!)
- Until the 2001-2002 crisis, level of benefits and total expenditure kept relatively stable, but public income decreased
- Fiscal deficit increased significantly, also due to additional policies (reduction in employers contributions and transfers of state's regimes)

The new system reinforced the idea of benefits based on defined contribution, but current benefits were paid with significant resources from general

revenue



Some problems in the fully-funded (individual capitalization) regime, 1994-2008

- J Increasing proportion of participants mainly due to default option (“undecided”)
- J Assymmetric information for members and Pension Fund Administrators implied a long distance from “perfect competition”
- J Members paid high fees that included significant commercial expenses
- J Fund investments followed tight regulations
- J Significant market concentration



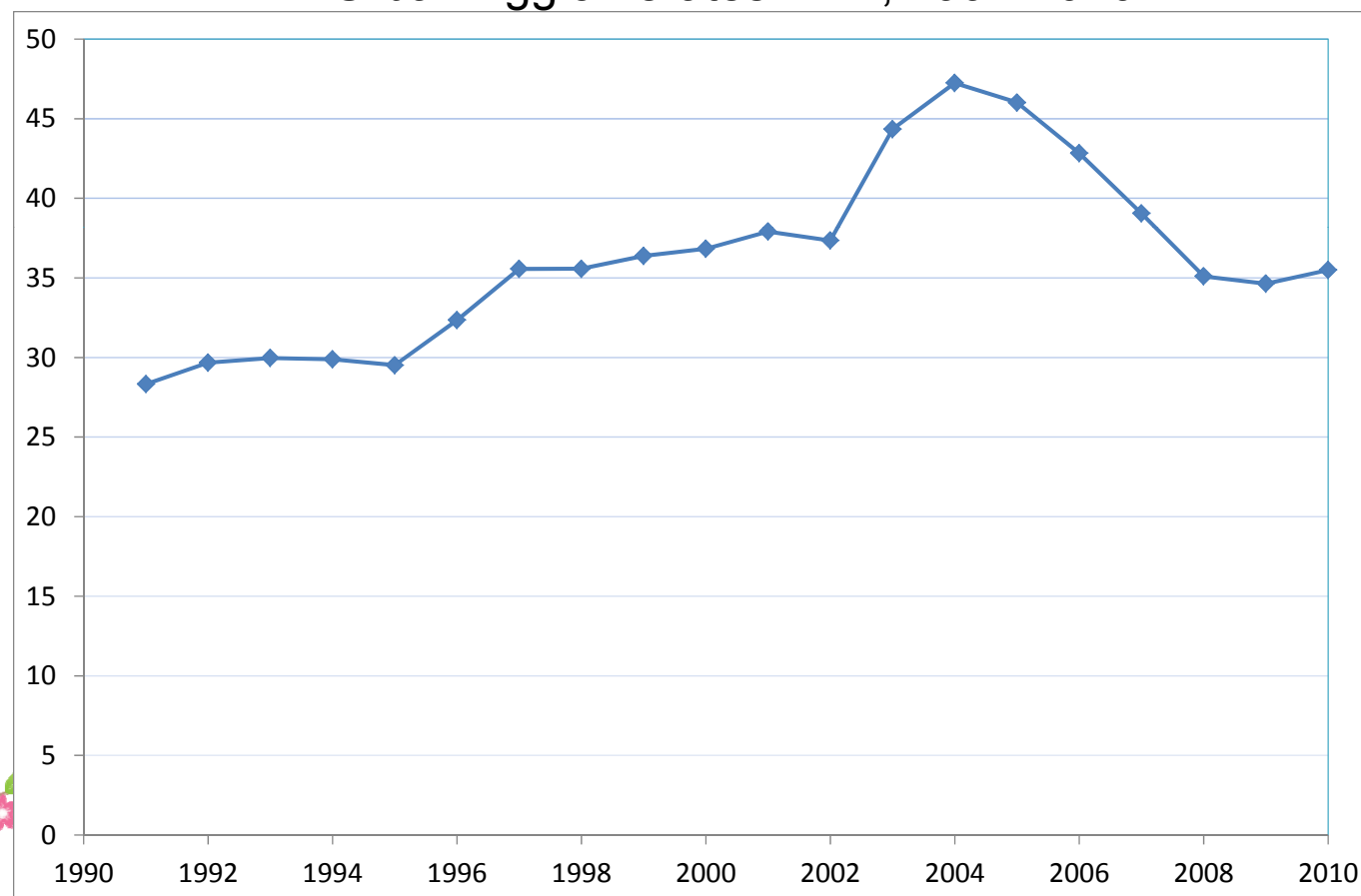
“Academic” suggestions for pension systems (Barr, 2006)

- What is important it is efficient governance (for every regime) and economic development
- Discussing “PAYG vs. FF” it is not central to face aging populations
- There are no universal recipes: good pension plans may take many varied ways
- There is no pension “crisis”. More beneficiaries and longer periods of retirement are due not only to increasing longevity. Age of retirement might be reconsidered



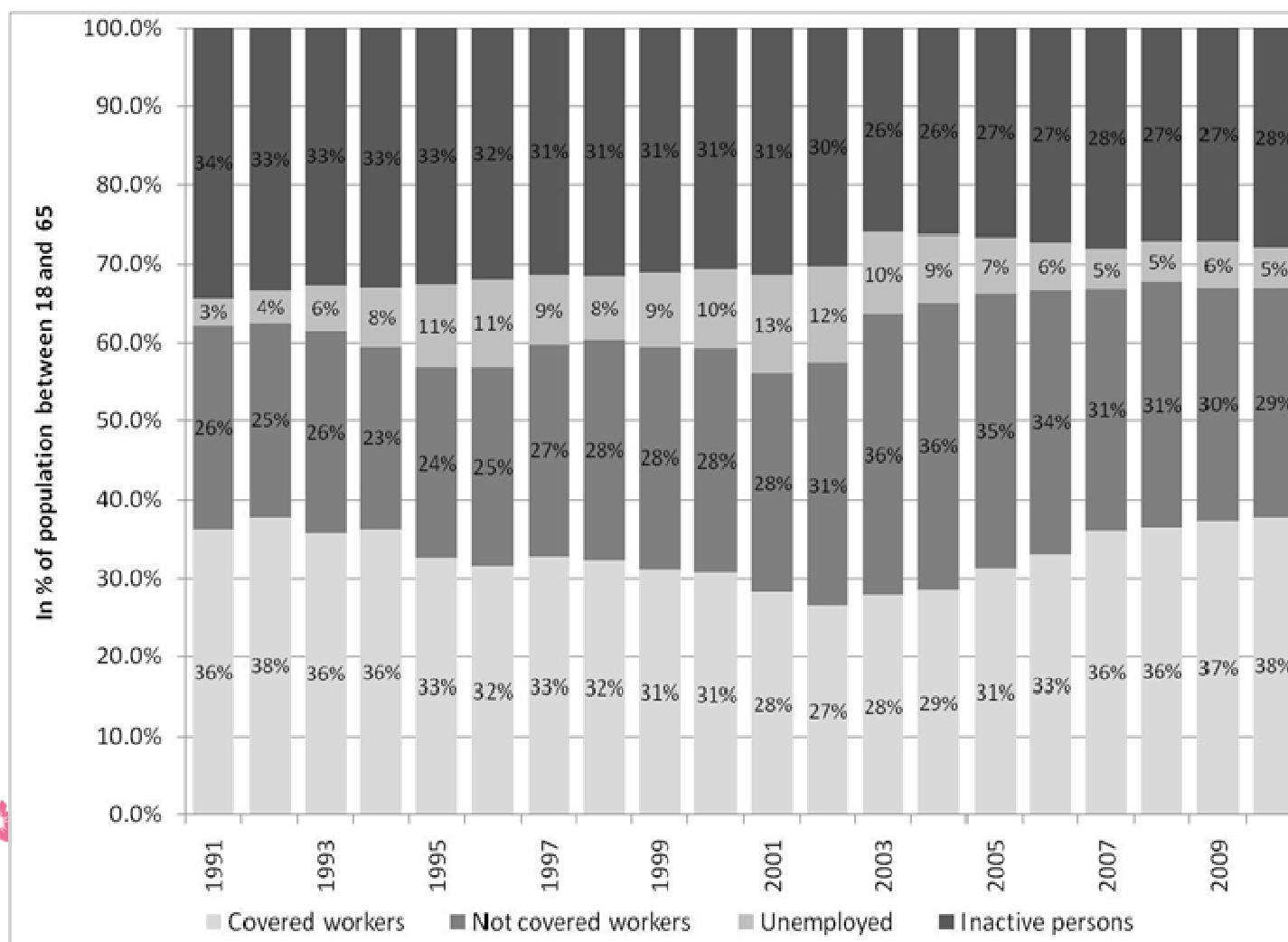
Lack of SS during active ages

Wage-earners without contributions to SS
Urban Agglomerates EPH, 1991-2010



Source: CEPAL and OIT (2011).

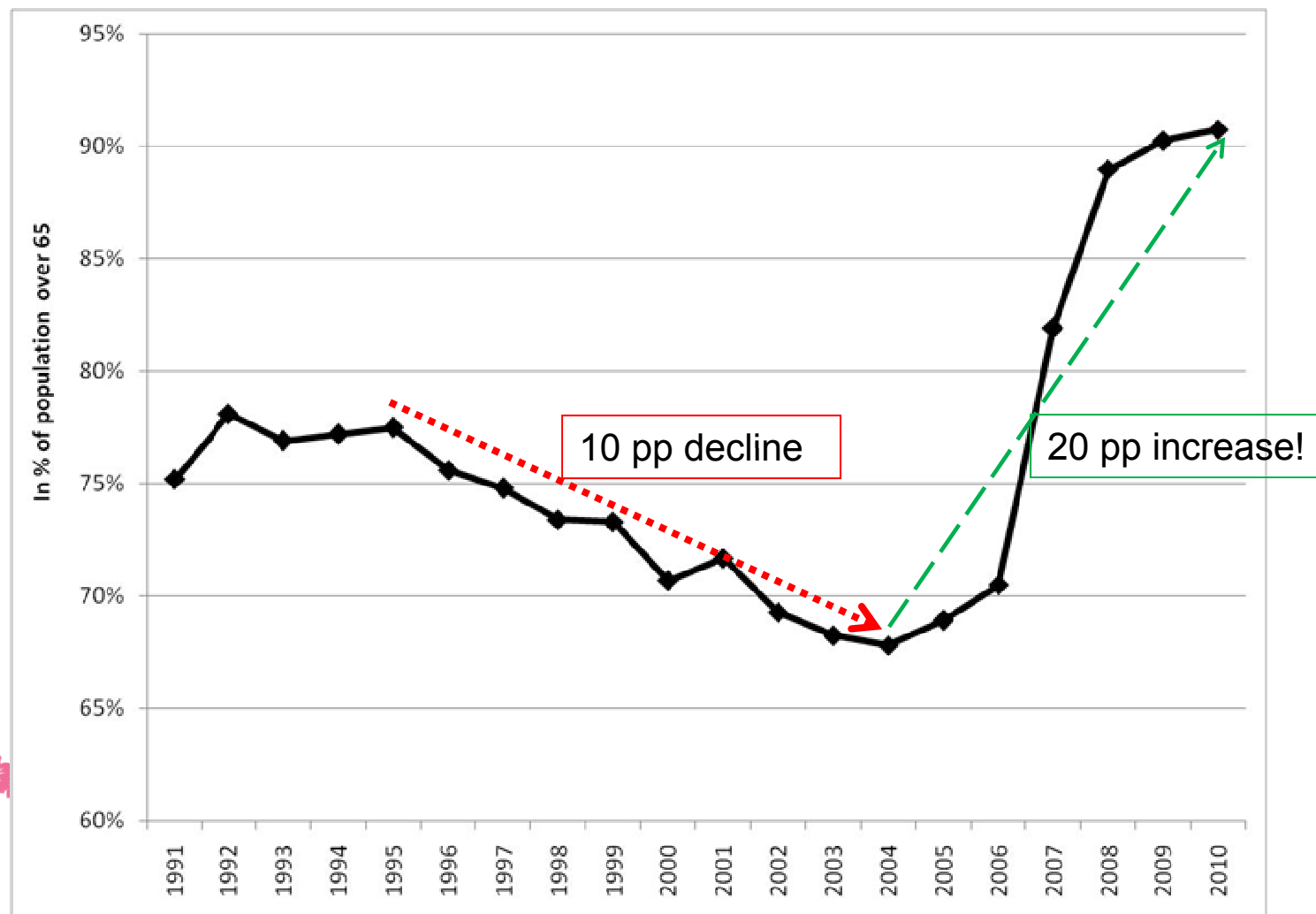
Activity condition and type of labor insertion of population aged 18-64 years, 1991-2010



Source: Bertranou, Cetrángolo, Grushka, and Casanova (2012).

SS coverage for the elderly

Urban Agglomerates EPH, 1991-2010



Source: CEPAL and OIT (2011).

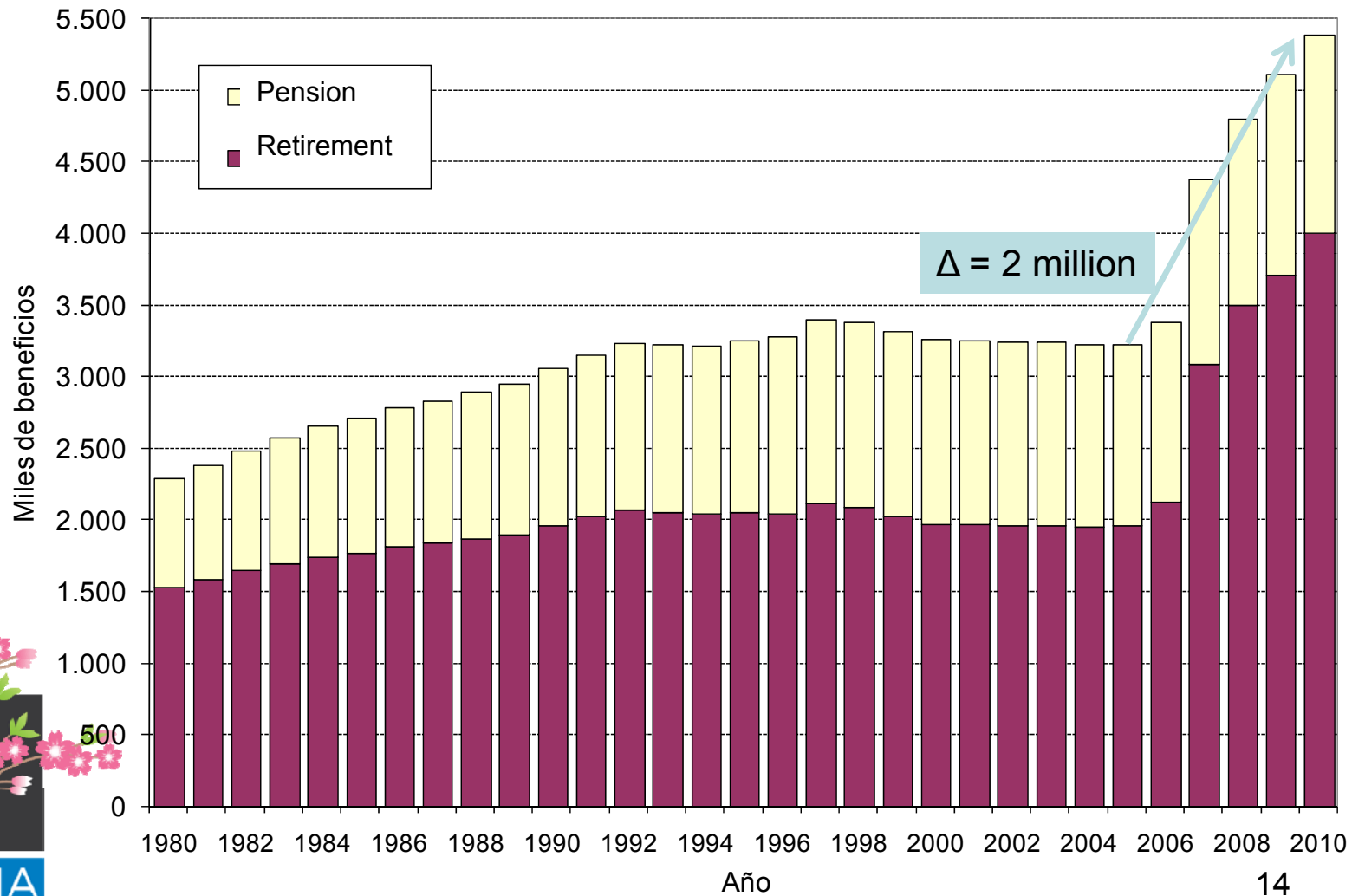
A “weird” way to increase coverage: “*Moratoria Previsional*” (SS moratorium)

- For those above retirement age (60 years females, 65 males), lacking some (or all) years of contribution, possibility to cancel “debt” in 60 monthly installments to be retained from the new granted benefit!
- “Gradually” **2.5 million** people!! 85% women, mean age 71 years, and about 30% were already receiving a pension (for their spouse’s death)



- The net benefit was significantly lower than the legal minimum (?!?). The net fiscal cost of new retirees was about 1.5% of GDP

Social Security Benefits in Argentina, 1980-2010



Note: Individual beneficiaries in December 2010 were 4,6 millions (MTESS, 2011).
 Source: CEPAL and OIT (2011).



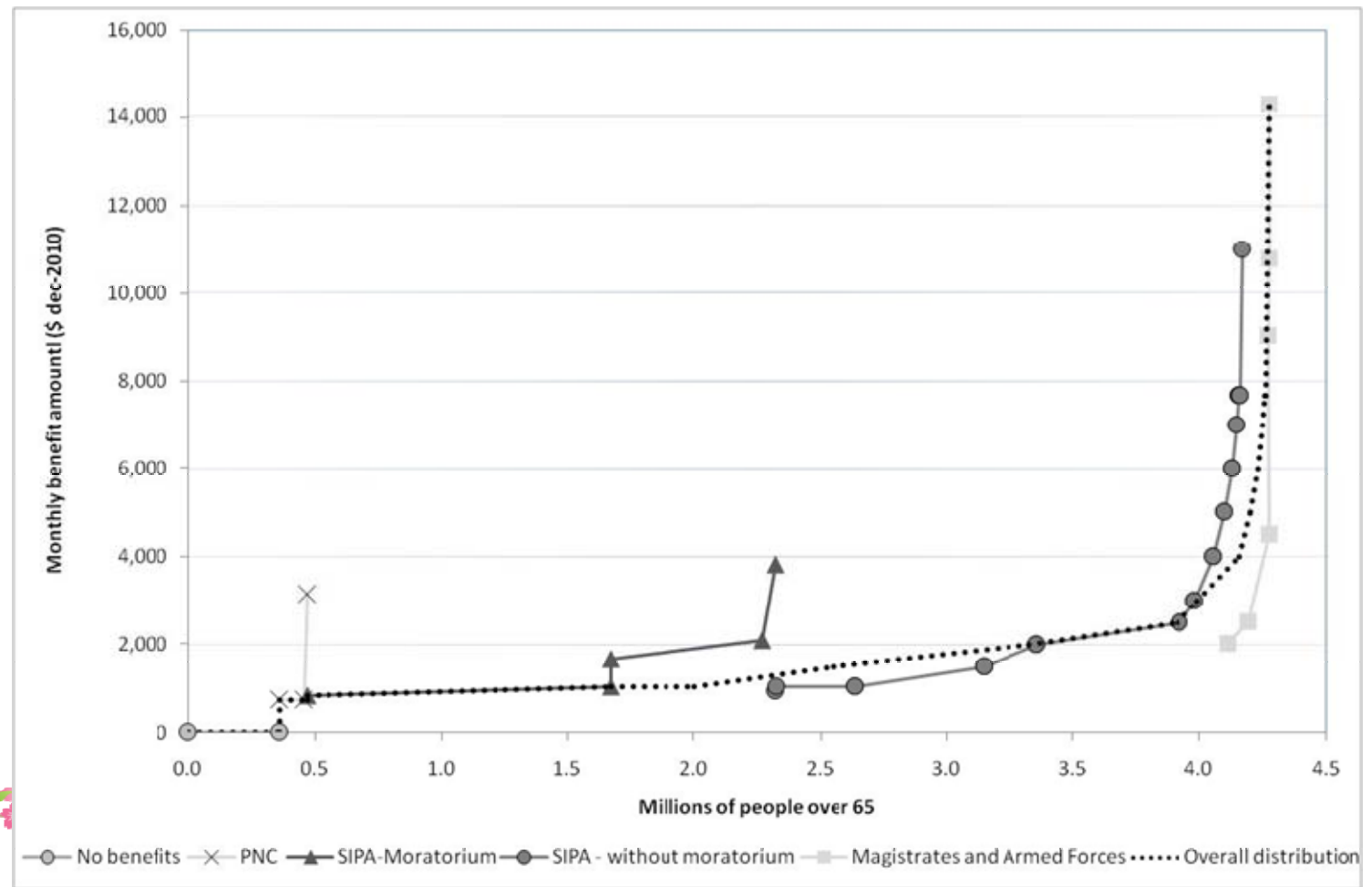
Substantial increase in coverage 2005-2010

SS coverage for the elderly, according to selected categories

#	Category	2005	2010	Difference (p.p.)
	<i>Total</i>	68.9	90.7	21.8
Gender	Men	73.1	86.8	13.7
	Women	66.3	93.3	27.0
Age	65-69	48.6	80.4	31.9
	70-74	67.9	95.4	27.5
	75-79	82.0	95.9	13.9
	80+	85.4	96.6	11.2
Education	Incompl Prim Ed	65.0	92.0	26.9
	Compl Prim Ed	68.6	92.5	23.9
	Compl Sec Ed	73.6	87.5	13.9
Income	Quintile 1	36.6	83.9	47.3
	Quintile 5	80.2	84.1	3.9

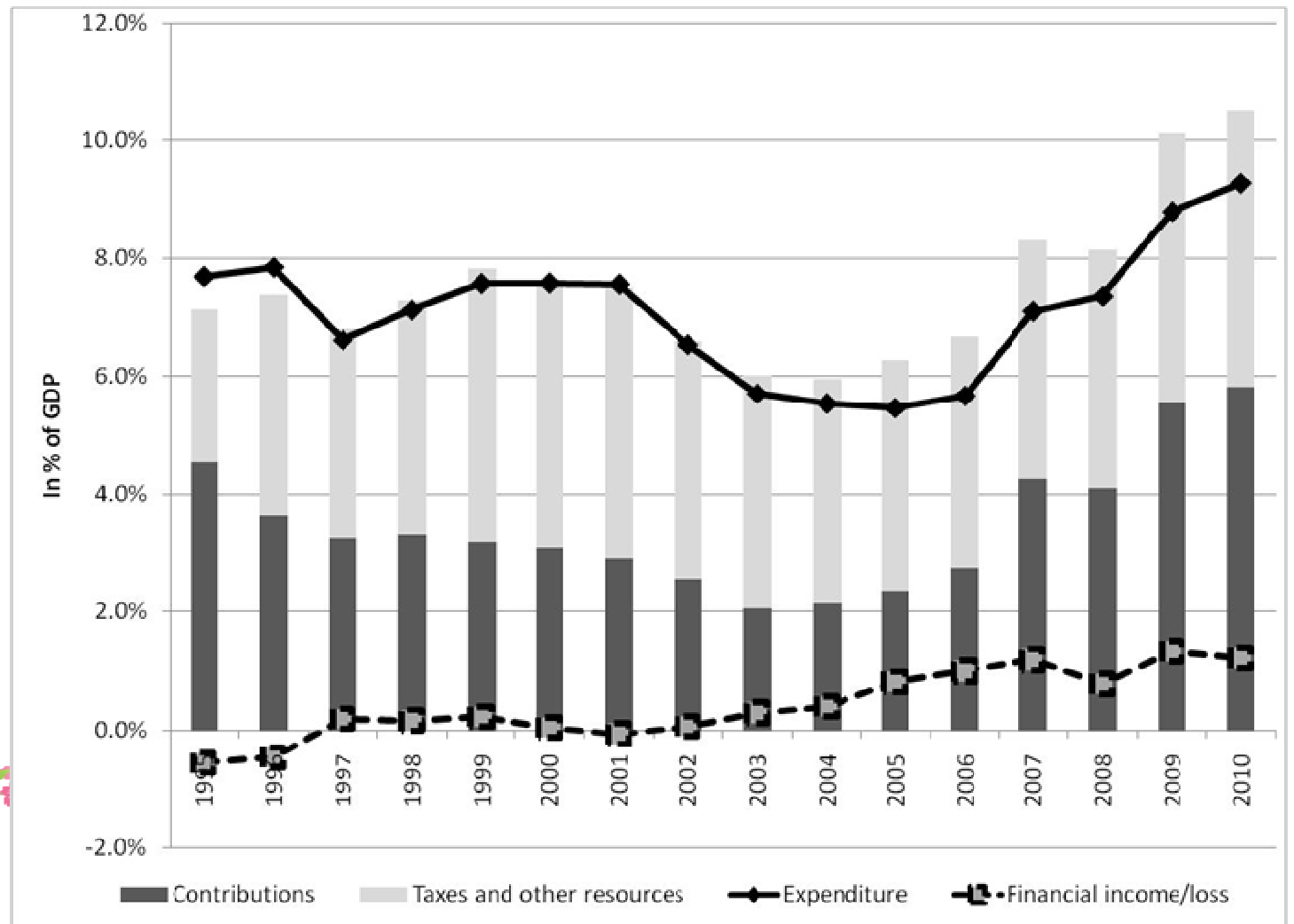


Elderly population and pension income, type and amount of benefits, 2010



Source: Bertranou, Cetrángolo, Grushka, and Casanova (2012).

Expenditure and total resources of the National Social Security Administration (ANSES), 1995-2010



Source: Bertranou, Cetrángolo, Grushka, and Casanova (2012).

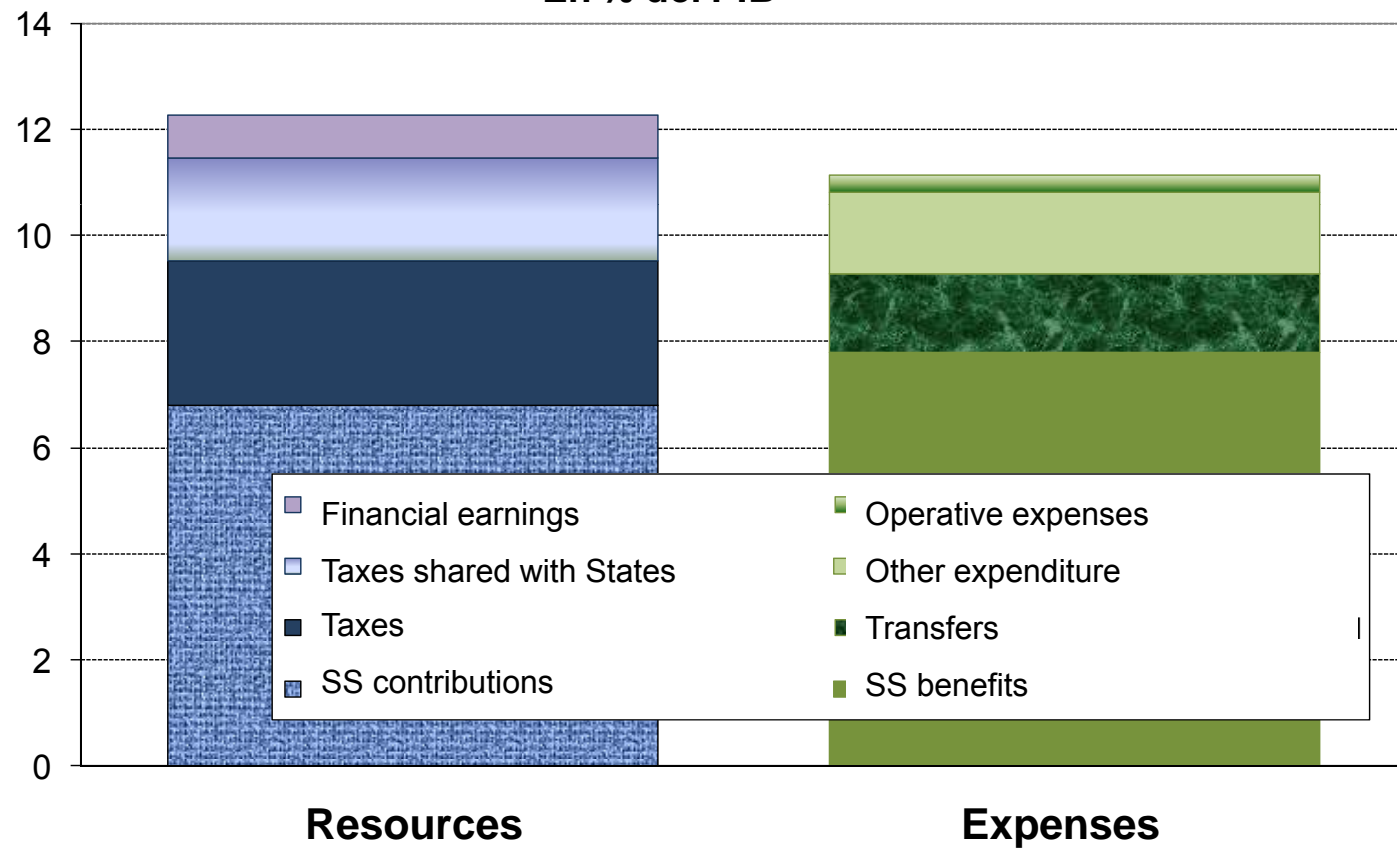
ANSES “cash-flows”: SS and other concepts affecting results

- ❖ Resources: SS contributions (+ family allowances), Taxes (earnings, added value, gas-oil, cigarretes), Taxes shared with States, Financial earnings
- ❖ Expenses: SS benefits, Transfers (family allowances, taxes to states pension plans), Operative expenses, Other expenditure (tax-financed pensions and armed forces pension plans)



ANSES “cash-flows” (% of GDP)

Esquema Ahorro Inversión Financiamiento 2012
En % del PIB



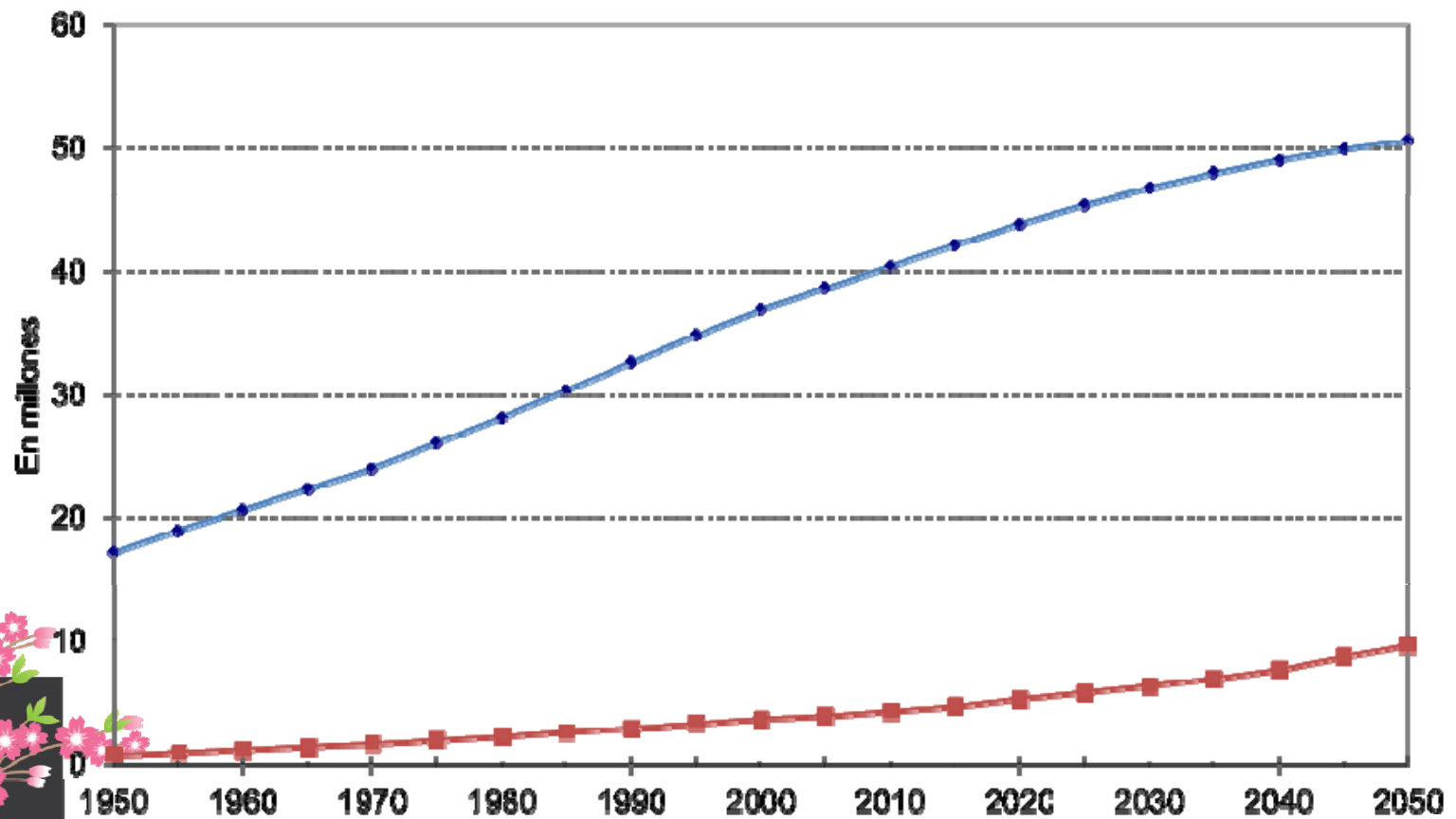
Problematic perspectives

- ❖ Long term financial sustainability is extremely complex to evaluate, under unstable macroeconomic and legal contexts
- ❖ It is very hard to predict SS results (and/or ANSES), with a model defined as contributive, but with significant resources from Tax Revenue and, at the same time, looking forward to reaching universality (“Moratorium”)



Demography in Argentina

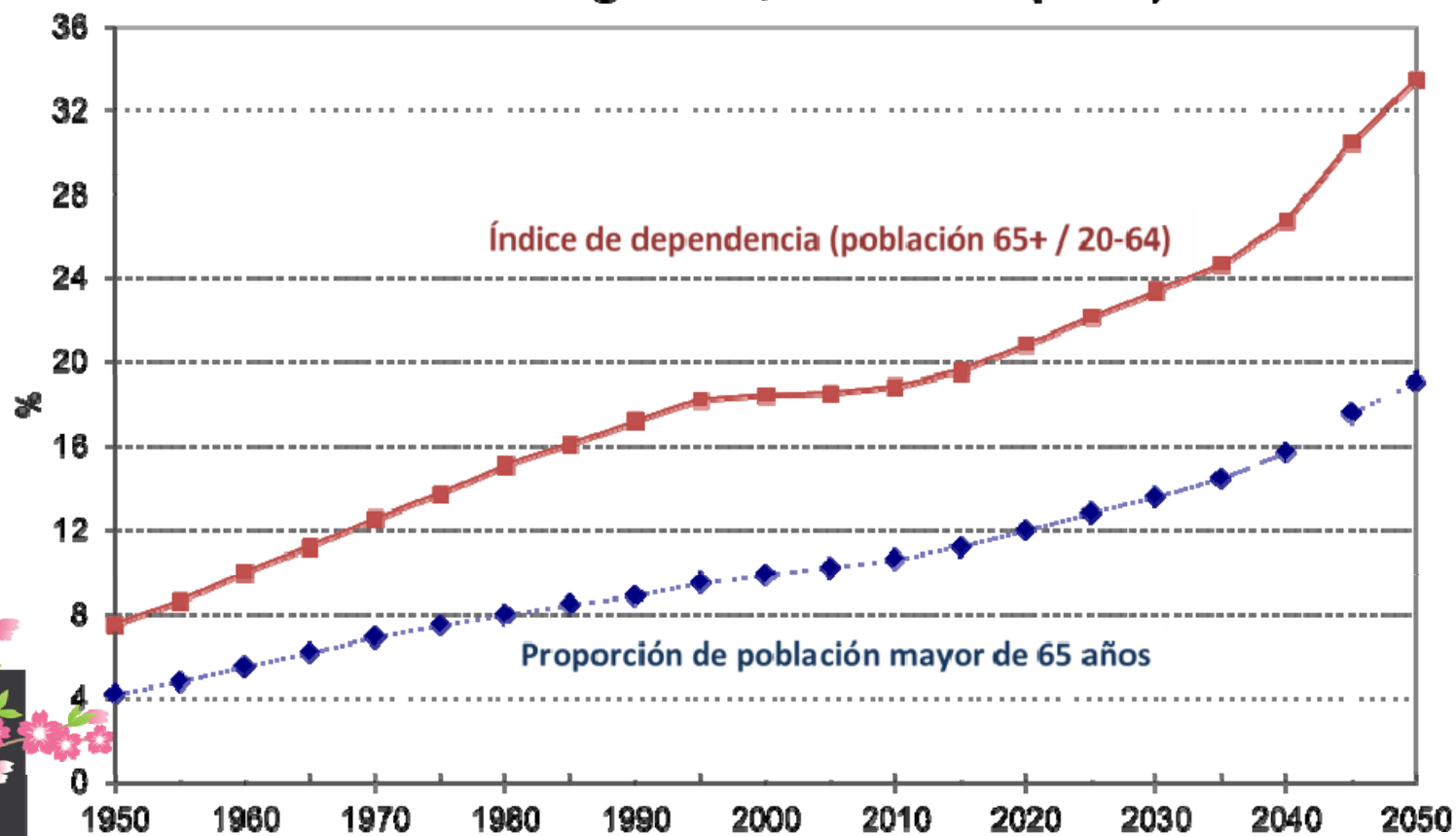
Población total y mayor de 65 años. Argentina, 1950-2050



Source: United Nations (2011).

Aging in Argentina

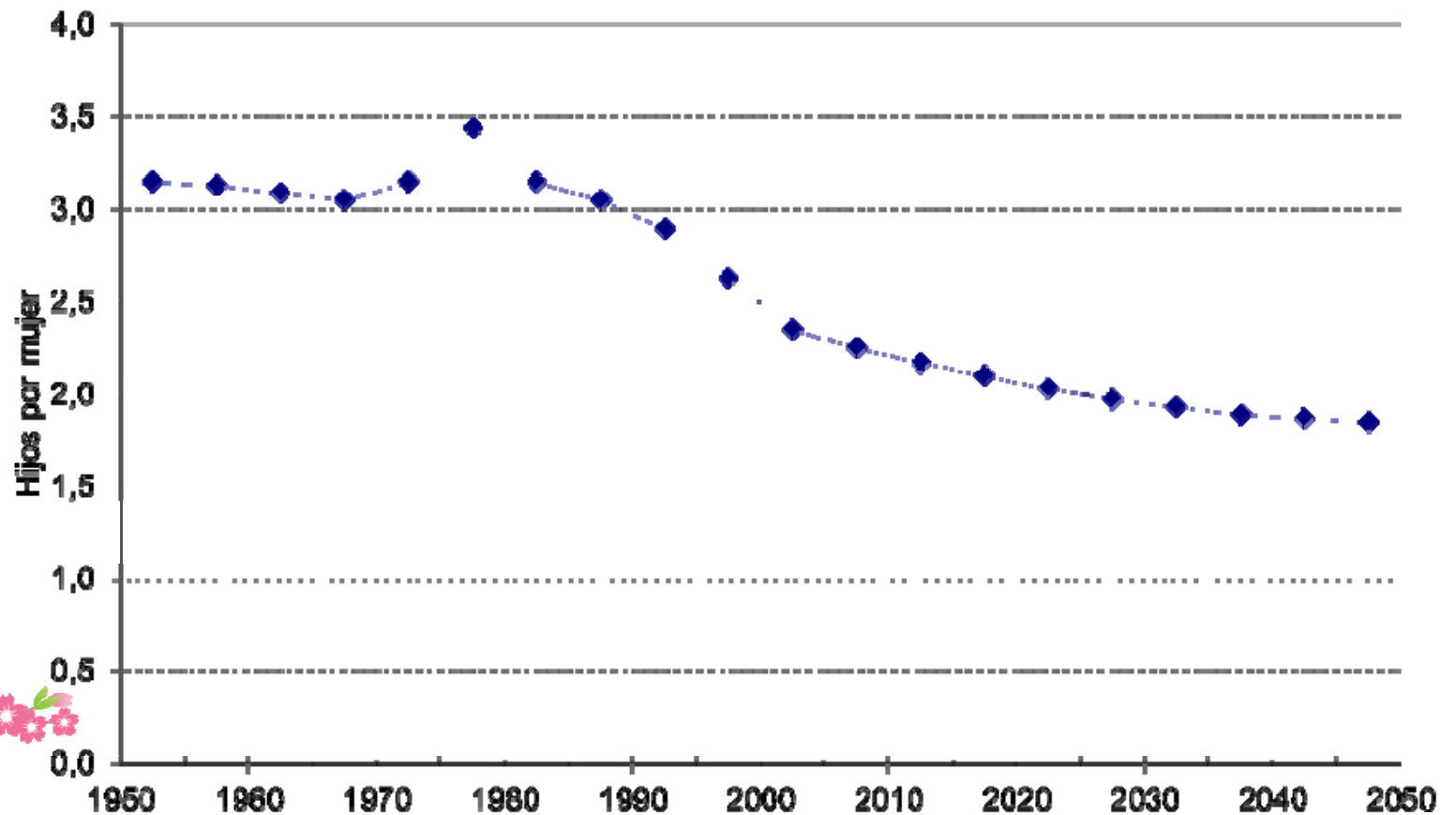
Proporción adulta mayor y relación de dependencia adulta - Argentina, 1950-2050 (en %)



Source: United Nations (2011).

Determinants of aging: fertility decline

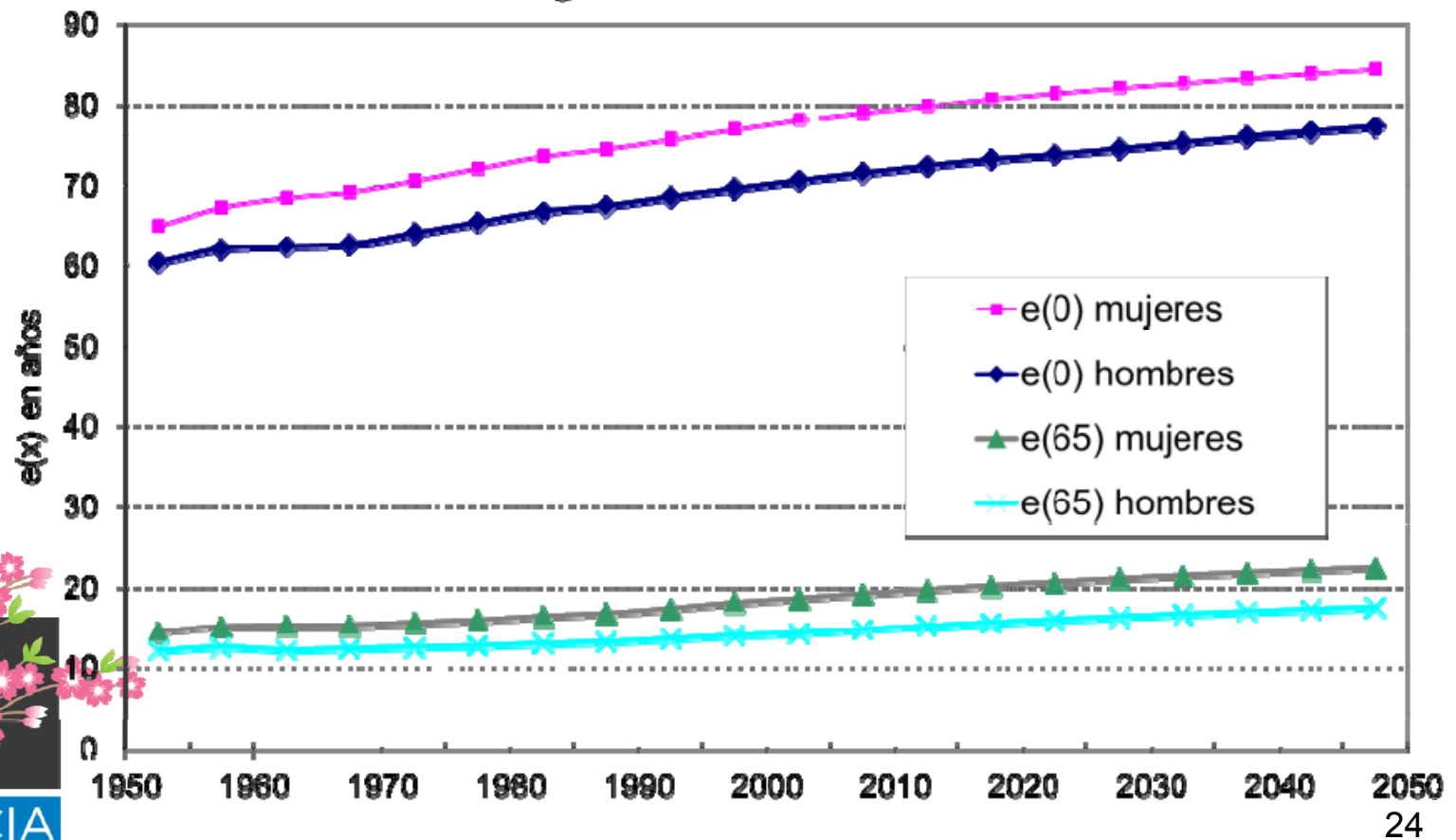
Tasa global de fecundidad
Argentina, 1950-2050



Source: United Nations (2011).

Longevity increases

Esperanza de vida al nacer y a los 65 años Argentina, 1950-2050



Source: United Nations (2011).

An actuarial projection (undesired scenario under current laws)

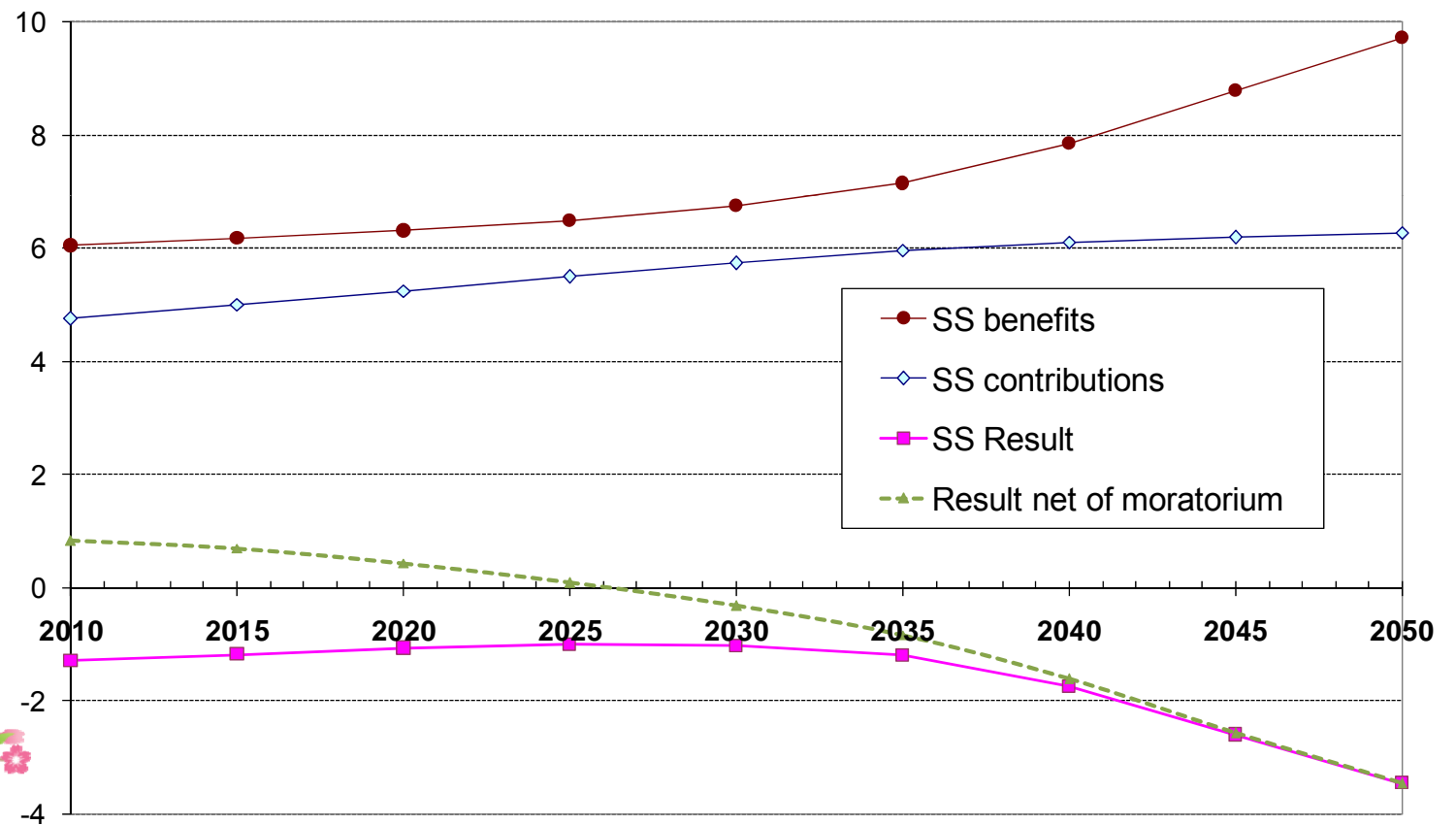
- SS contributions are not sufficient to meet the committed benefits. The deficit in 2010 (1% of GDP) would remain for the next two decades and gradually increase the following two decades, reaching 3.5% of GDP in 2050
- Leaving aside the moratorium, the “pure contributory” result would show a slightly surplus until 2025, but the trend is clearly negative and deficits would coincide from the year 2040, when the impact of the moratorium disappears

Notably, the growing requirement for additional resources would occur in a context of sharp deterioration in coverage



SS projected flows (Grushka, 2013)

SS resources and expenses, 2010-2050 (% of GDP)



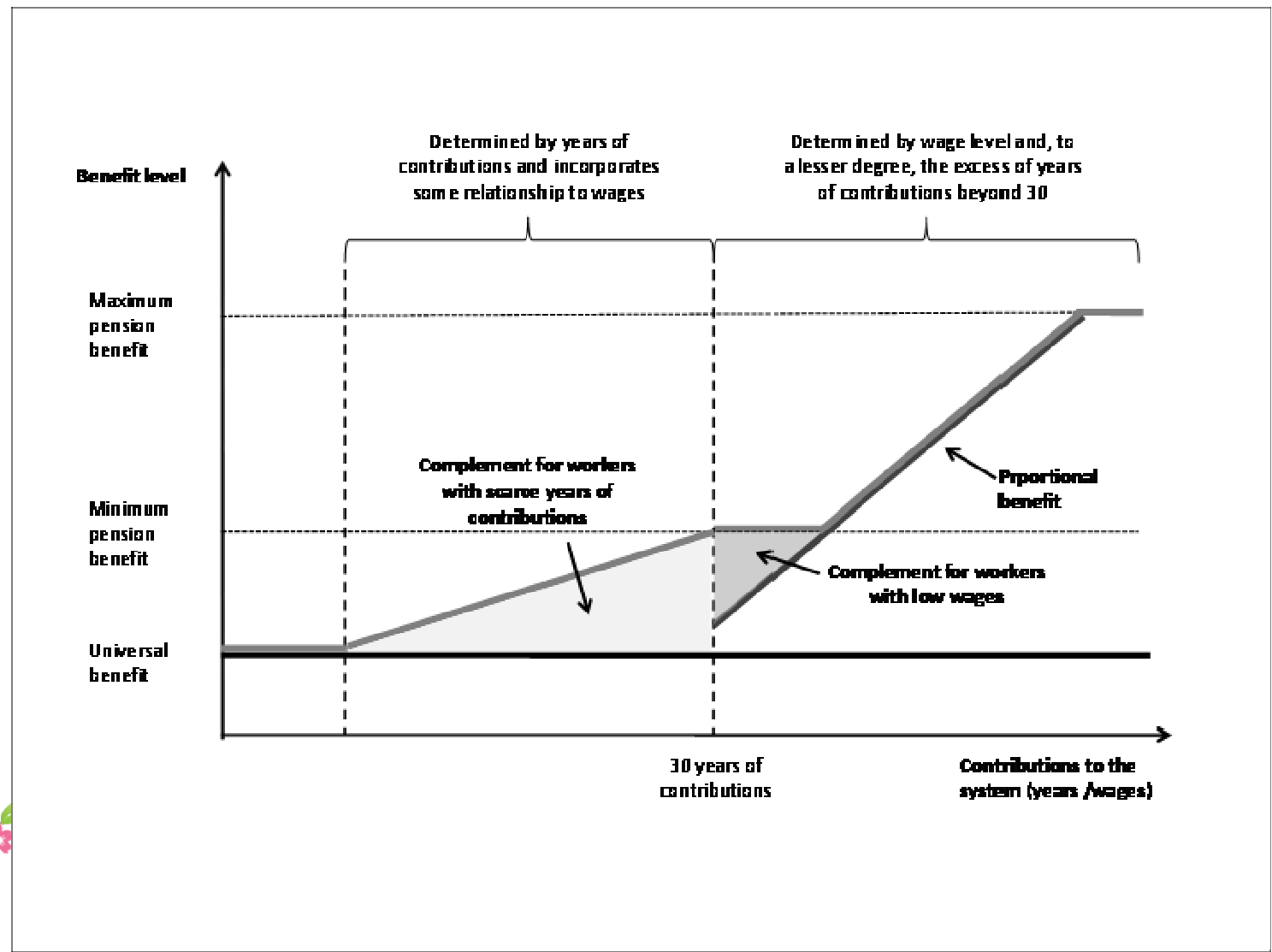
Which are the challenges that future pension policies face in terms of sustainability?

The challenge ahead is to anticipate a new legal framework to improve the contributive system and its coordination with social protection, including three components:

- ❖ **Solidarity:** tax-financed “social protection floor” for the elderly
- ❖ **Contributive:** to allow workers to anticipate benefits proportional to wage contributions
- ❖ **Redistributive:** towards low-salary workers and/or those with incomplete contributive history, depending on chosen priorities and available resources



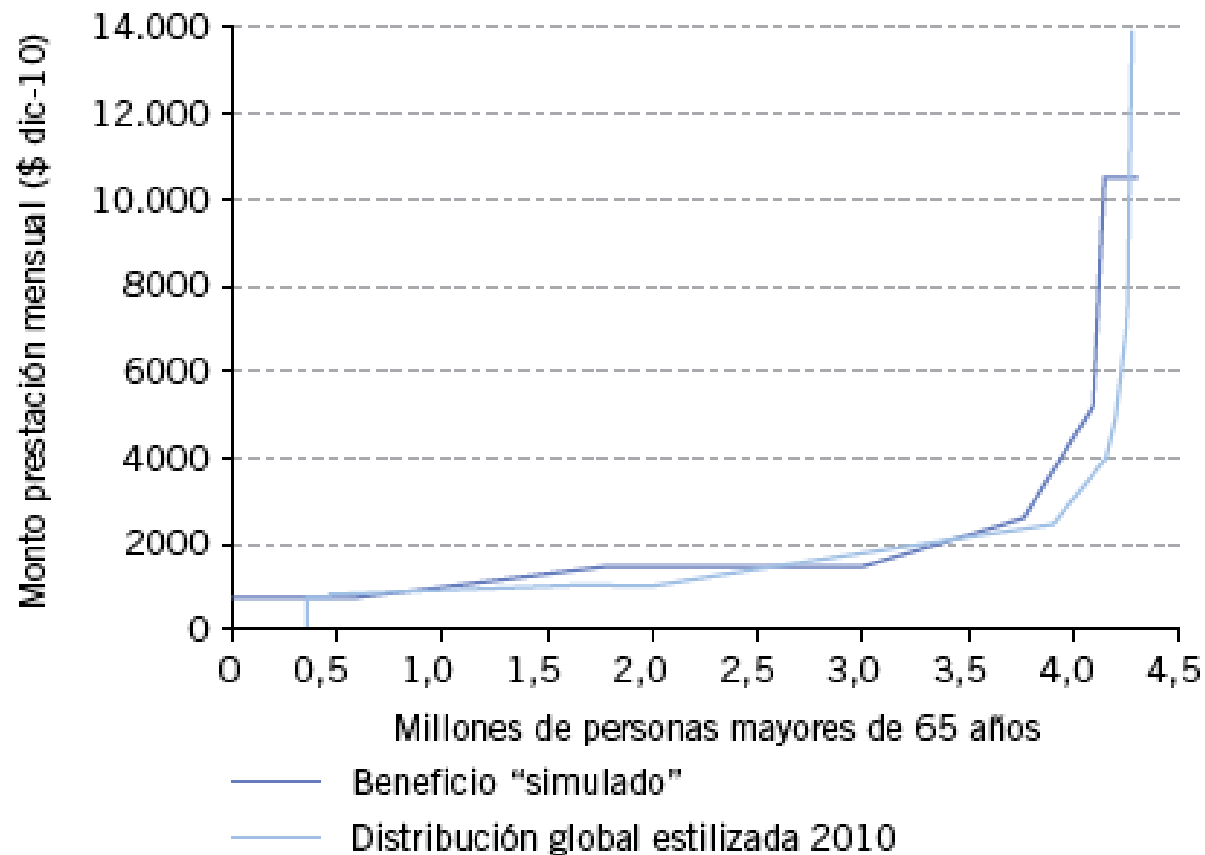
A proposed benefit scheme



Source: Bertranou, Cetrángolo, Grushka, and Casanova (2012).

Argentina is not far away (from proposal) but it is unlikely to remain as it is

Distribution of population over age 65 according
current and simulated benefits



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Thanks!!



**Comments or more questions?
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