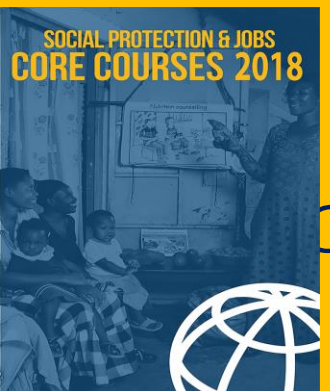
Global Pension Policy and Practice: Past, Present and Future



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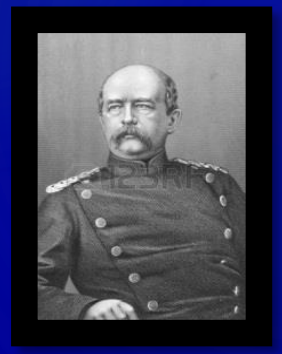
CORE COURSES: PENSIONS, SOCIAL SAFETY NETS , JOBS AND MIGRATION

APRIL 30, 2018

Four eras in global pension policy

The First Era: Rise of the Public Defined Benefit (DB) Schemes

1890s



WWI

Expansion of publicly managed DBs in Europe and Americas

Chile (1924)
US (1935)

WWII

Early European DB schemes wiped out, become PAYGO

US Private Occupational DB plans

Public DB schemes in ECA, LAC, East Asia

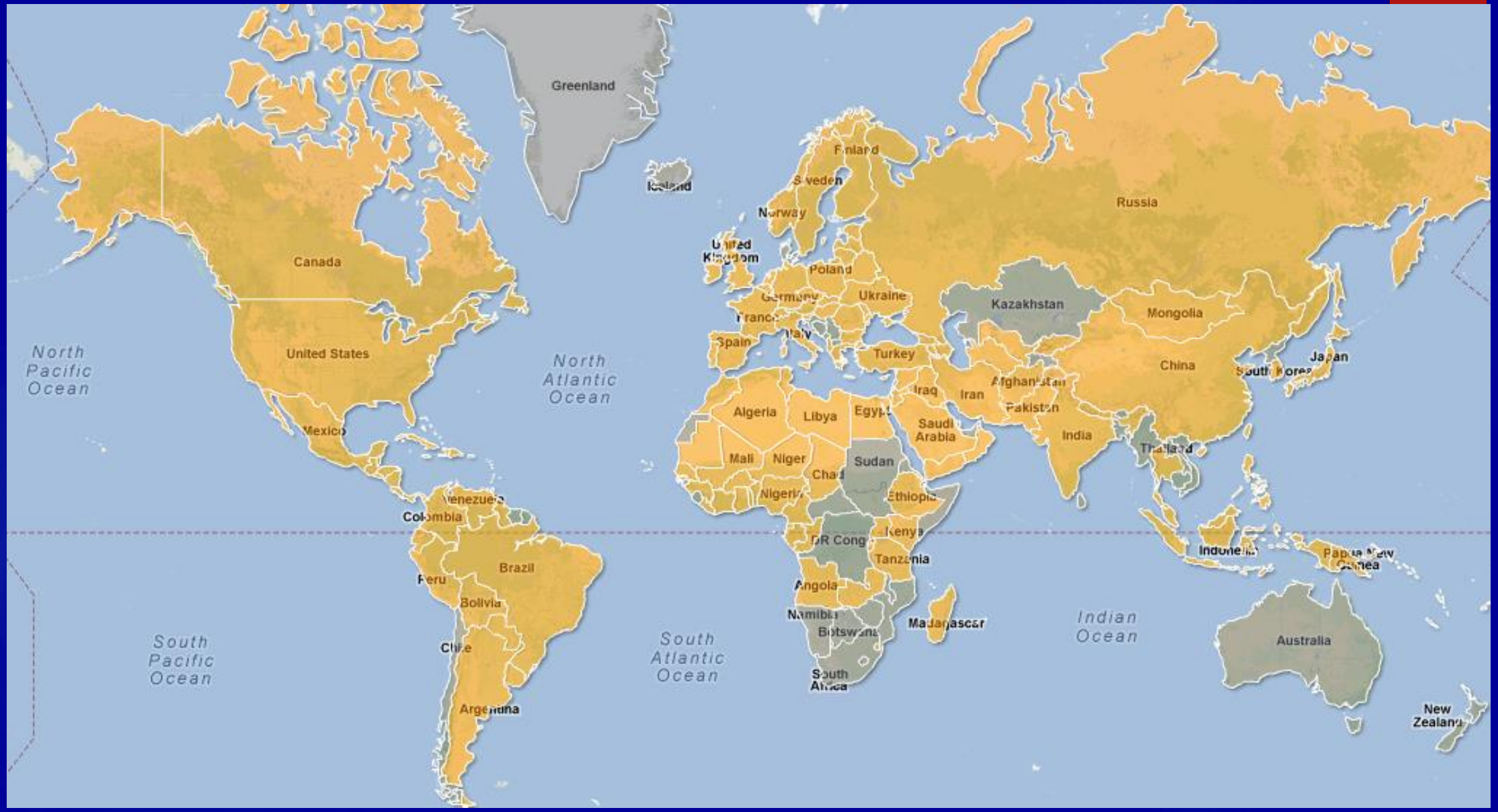
Singapore, Malaysia and South Asia go with Public DC (provident funds)

1960s/70s

African post independence wave of public DBs

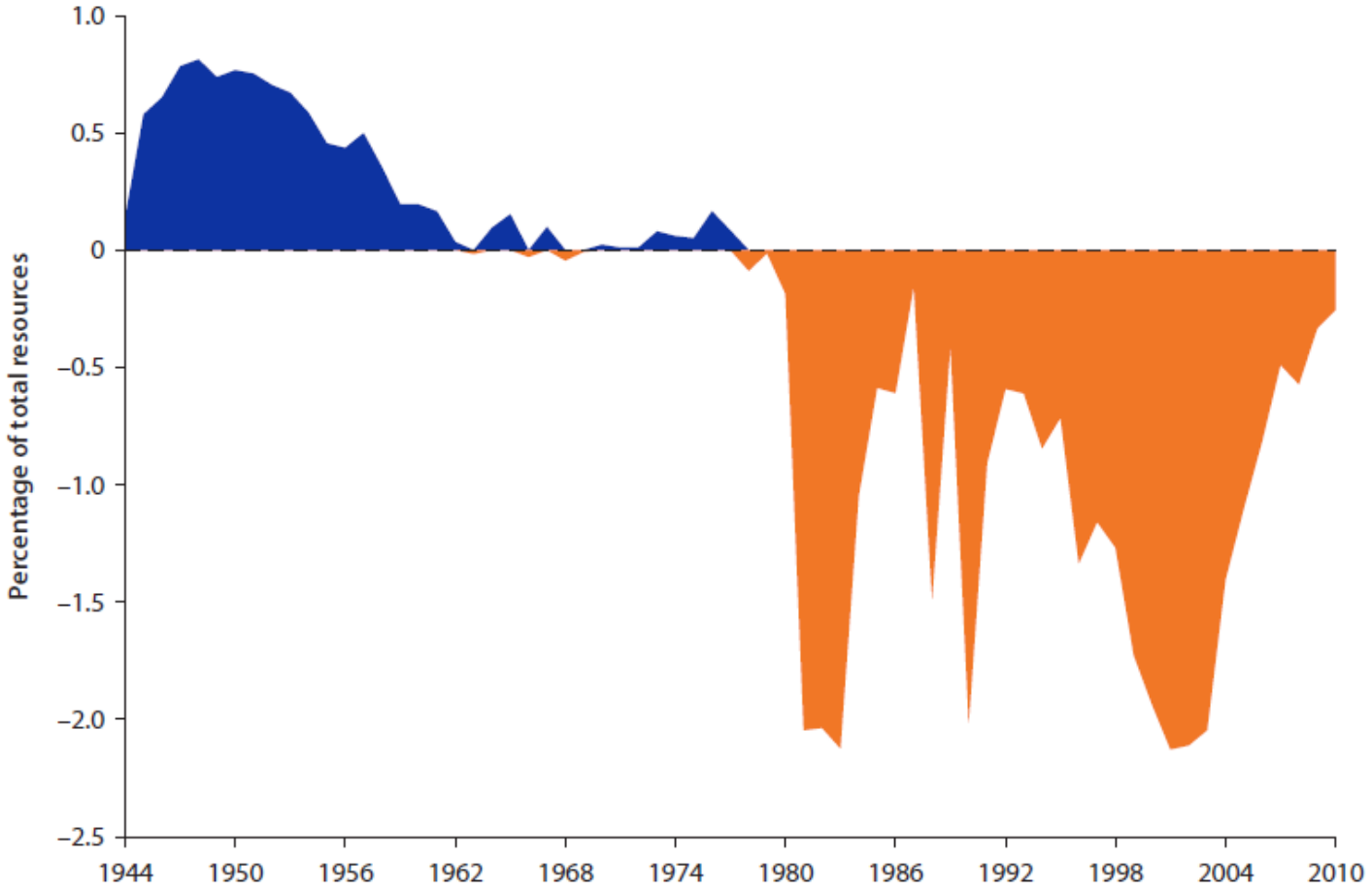
Canada, Scandinavians join public DB club

US Private DB pensions regulated with ERISA


Greenland
Iceland
Finland
Sweden
Norway
Russia
United Kingdom
Poland
Germany
Ukraine
France
Italy
Spain
Kazakhstan
Mongolia
Canada
United States
Turkey
China
Japan
South Korea
North Pacific Ocean
North Atlantic Ocean
Iraq
Iran
Afghanistan
Pakistan
Algeria
Libya
Egypt
Saudi Arabia
India
Mexico
Thailand
Mali
Niger
Chad
Sudan
Nigeria
Ethiopia
Venezuela
Colombia
Kenya
DR Congo
Tanzania
Indonesia
Papua New Guinea
Brazil
Peru
Bolivia
Angola
Namibia
Botswana
Madagascar
Indian Ocean
Australia
South Pacific Ocean
Chile
South Atlantic Ocean
South Africa
Argentina
New Zealand

The life-cycle of a PAYGO pension scheme: Argentina, 1944-2010

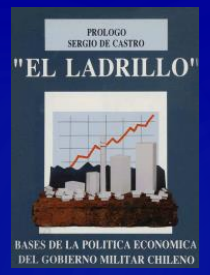
Figure 2.11 Contribution Revenues–Benefit Expenditures Balance, Argentina's Pension System, 1944–2010



Source: Centrángolo and Grushka 2004 and Bertranou et al. 2012.

The Second Era: Revenge of the Defined Contribution Schemes

1980s



Chilean reform

US Thrift Savings Plan and 401(k)s

UK Serps opt out

OECD 1988 Pension Report warning of DB unsustainability

1990s

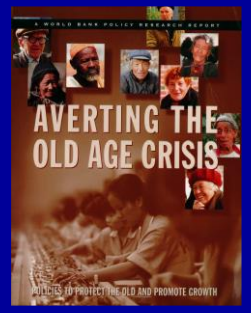
Australian DC introduced

Wave of DC reforms (second pillars) in Latin America

Wave of East European DC reforms

Italy, Sweden NDC

China DC or NDC?



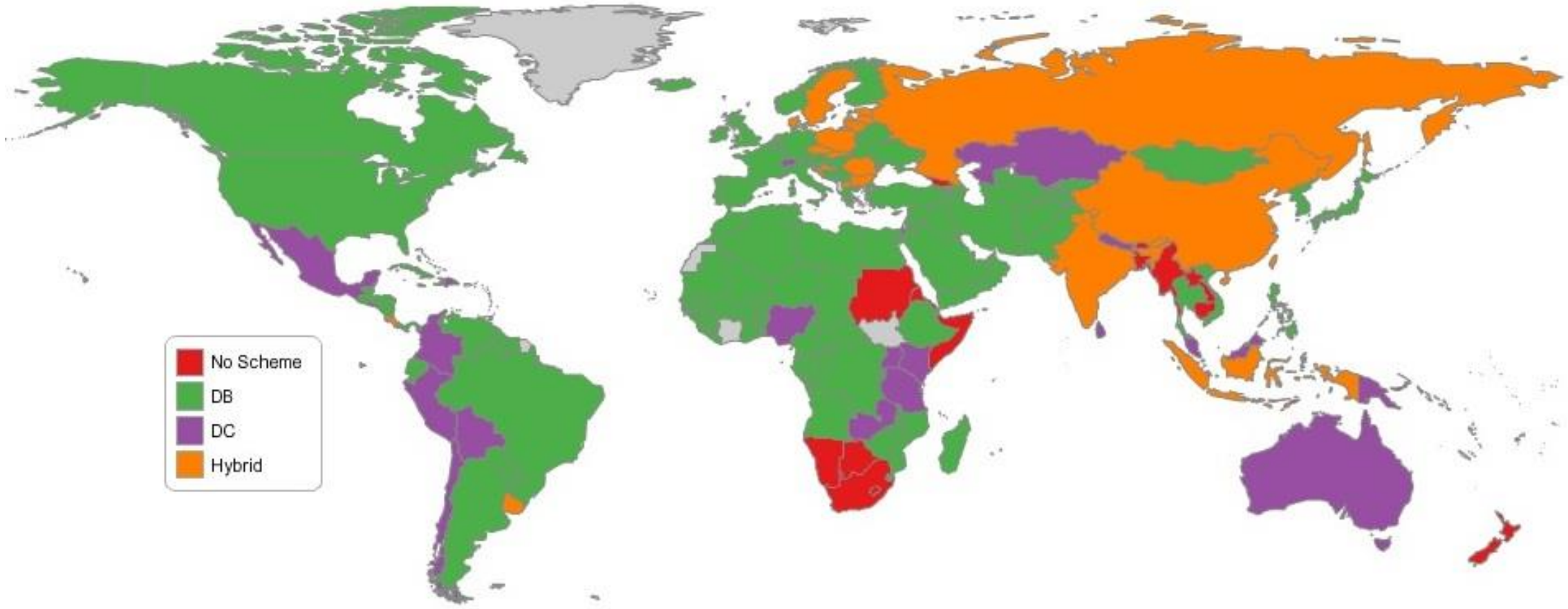
2000s

EU Aging Committee, Parametric reforms throughout OECD plus expansion of voluntary DC

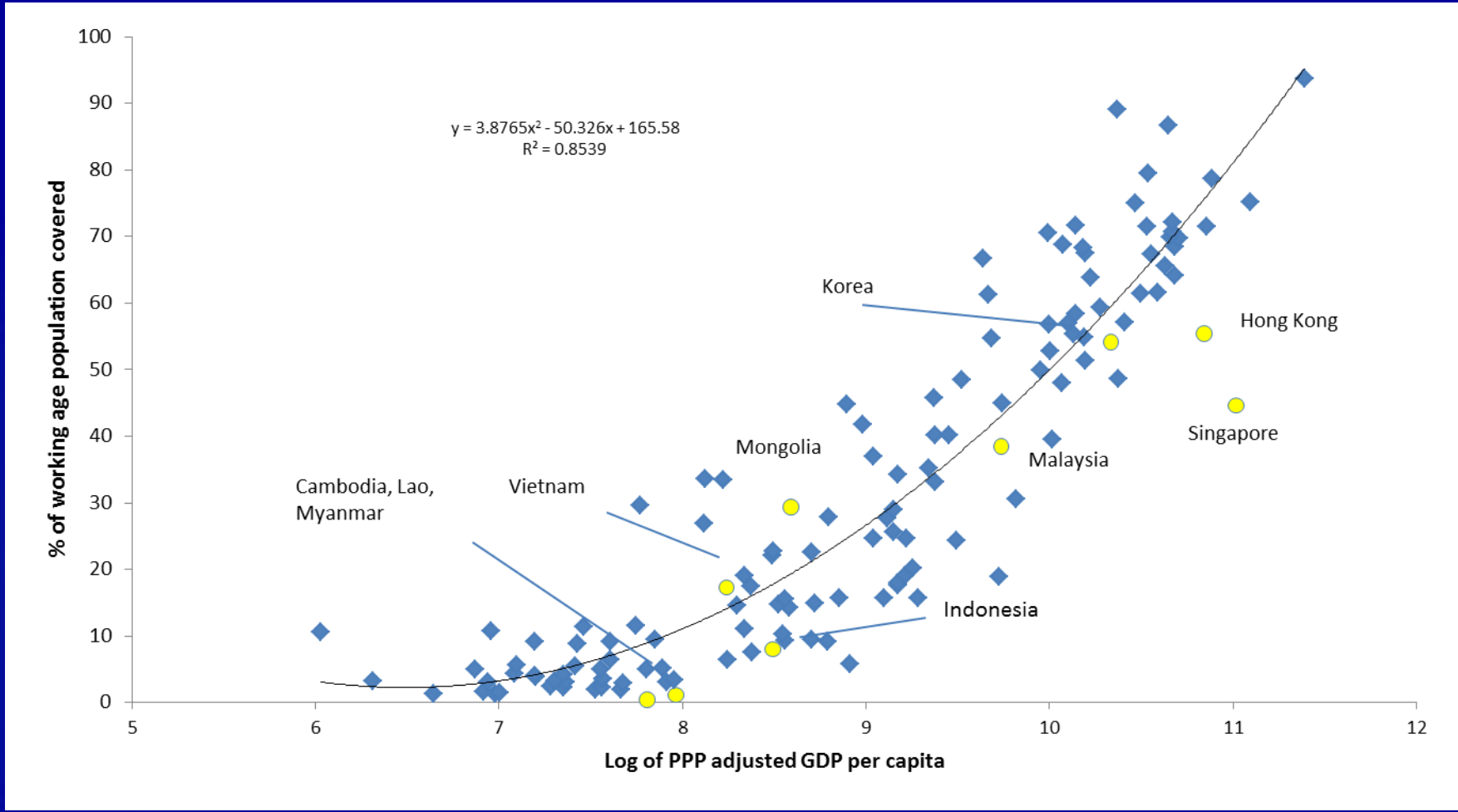
Hong Kong's MPF (2001)

India, Nigeria DC for civil servants (2004)

New Zealand's KiwiSaver (2006)


No Scheme
DB
DC
Hybrid

Pension coverage and income level



The Third Era: The Decline of Contributory Pensions

2008 Financial Crisis

2010- Present

Georgia shuts down contributory scheme

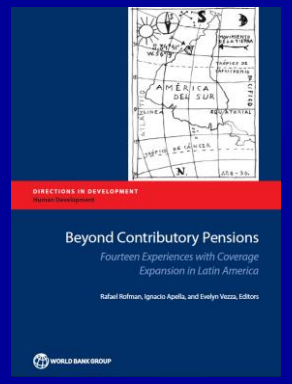
Chile's Social Pension

China's Social Pension

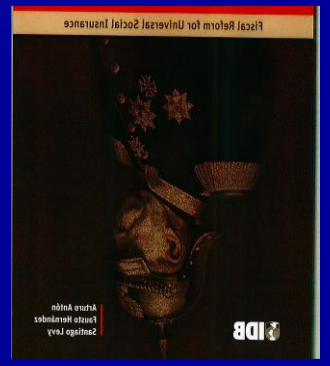
Wave of Latin American Social Pensions

Thailand, Timor, Korea, Japan expand social pensions

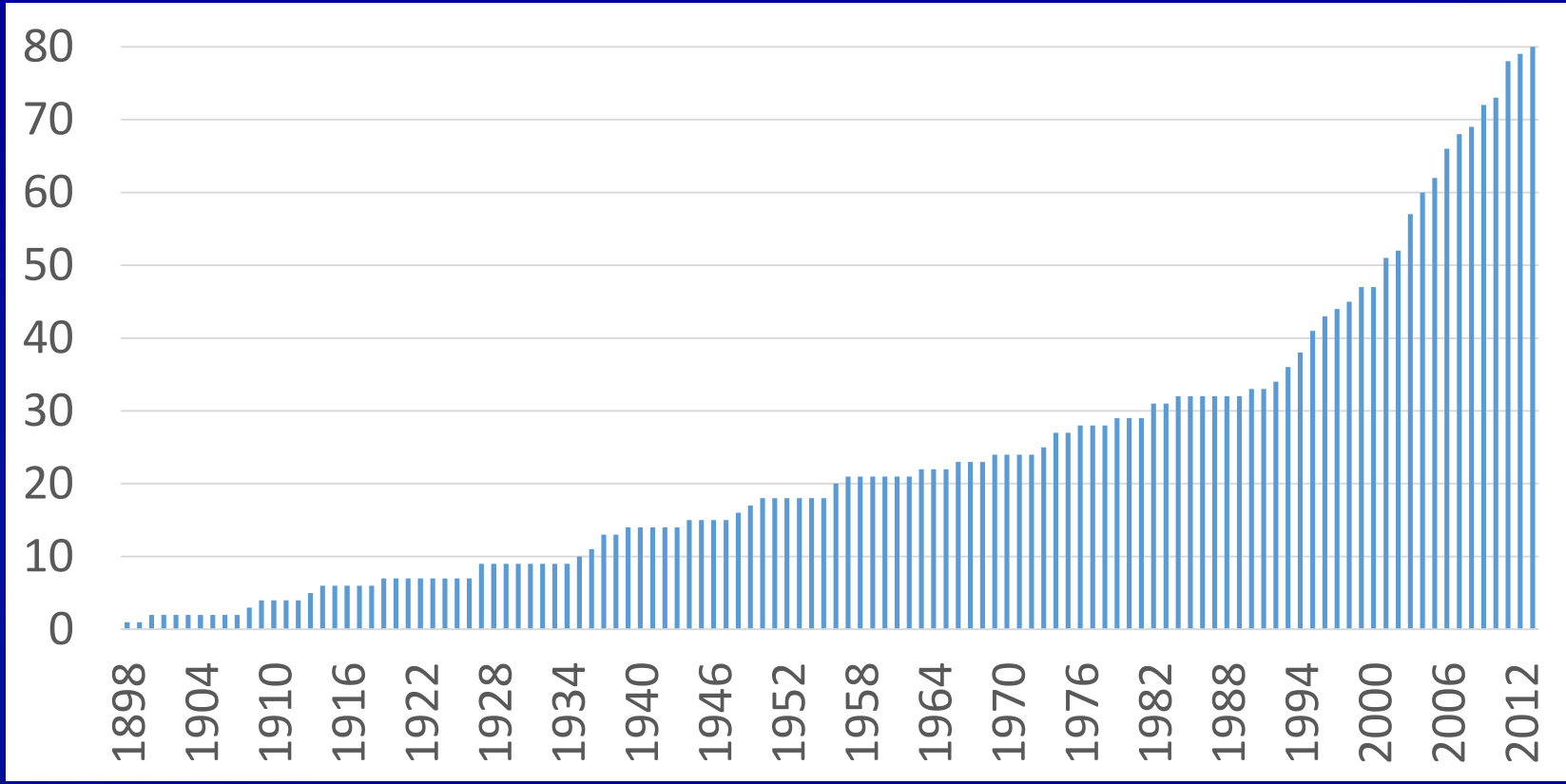
Greek pension collapse



Levy proposes earmarked VAT to finance pensions and health insurance – "universal social insurance (USI)"

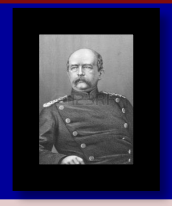


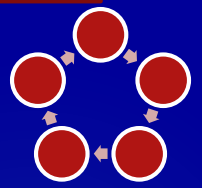
Number of countries with non-contributory pension schemes 1898-2015



The Fourth Era: Technology and the shift away from payroll taxes

2020 - ??





- Automation threatens employment; experts discuss the merits of universal basic income (UBI); Bill Gates suggests taxing robots
- A massive shift from cash to digital transactions, mobile money takes place; some countries are effectively cashless
- Personal data is digitized for most of the world's population and captures information on consumption and assets

- Payroll taxes as the financing source of pensions and health insurance are increasingly rejected
- Digital transactions formalize a large part of the economy making consumption taxes or automatic deductions possible as a source of pension financing
- In order to offset the impact of consumption taxes on the poor, linked databases are used to rank people to implement a negative income tax or universal social insurance

Summary

- Era 1: Countries choose the contributory, publically managed DB model
- Era 2: Concerns about the financial sustainability of public DB schemes and private DB schemes leads to introduction of more mandatory and voluntary DC schemes
- Era 3: The failure of either DB or DC schemes to expand coverage to most of the workers in developing countries leads to a shift towards non-contributory pensions and proposals to move away from tradional Bismarckian social insurance
- Era 4: Technology threatens formal sector employment, making the case against payroll taxes stronger; digital commerce brings new sources of potential financing; availability of socioeconomic data makes it possible to mimic a progressive income tax through proxies
- **A new model of pension provision that relies less on payroll taxes will emerge in the coming years**

Questions?