Four eras in global pension policy
The First Era: Rise of the Public Defined Benefit (DB) Schemes

1890s
- Expansion of publicly managed DBs in Europe and Americas
- Chile (1924)
- US (1935)

WWI

1960s/70s
- African post independence wave of public DBs
- Canada, Scandinavians join public DB club
- US Private DB pensions regulated with ERISA

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)
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: Centránigo 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)
Pension coverage and income level

\[ y = 3.8765x^2 - 50.326x + 165.58 \]
\[ R^2 = 0.8539 \]
The Third Era: The Decline of Contributory Pensions

2008 Financial Crisis
- Georgia shuts down contributory scheme
- Chile's Social Pension

2010- Present
- 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 traditional 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?