Global Pension Policies: Past and Present

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Different pension models have strengths and weaknesses. There is not an absolute indicator to guide policy choice.

The choice of a specific model is determined, to a large extent, by social preferences;

Social preferences, in turn, are historically determined by socio-economic and political conditions;

In the relatively short history of Pensions and Social Insurance, we can clearly distinguish four historical periods (phases) which have shaped specific policy choices.
Phase 1: The expansion of Social Democracy and the rise of Contributory public pension schemes

• Milestones:
  - The expansion of social democracy as a reaction to socialism
  - 1890 – Bismarck vs Beveridge
  - 1920-30 – The economic depression and a new social contract: The “New Deal”
  - Dominance of Keynesianism, with a strong role of the government in the economy and labor markets
  - Extension of the Welfare State and expansion of public contributory pensions
  - Post WWII – Economic recovery as a joint responsibility of governments, employers and workers: tripartism as social contract
  - Fiscal space not a major issue: Baby boom => youth bulge => Pension schemes contribute to finance public sector expansion and infrastructure
Phase 1: The rise of publicly managed contributory pensions: Defined Benefit (DB) Schemes

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

1960s/70s
- US Private Occupational DB plans
- Public DB schemes in ECA, LAC, East Asia
- Singapore, Malaysia, and South Asia go with Public DC (provident funds)

WWI
- Early European DB schemes wiped out, become PAYGO
- US Private Occupational DB plans
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World War II
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African post-independence wave of public DBs
- Canada, Scandinavians join public DB club
- US Private DB pensions regulated with ERISA
Phase 2: Unfulfilled expectations from public interventions: Deregulation and privatization

• Milestones:
  - 1970s – High inflation and the monetarist revival
  - Unmet expectations and frustration with public sector expansion
  - 1980s – Reagan and Thatcher bring to practice some of the ideas of the 70s, and gain adepts worldwide
  - 1990s - Socialism loses the battle: From the Berlin wall to the disintegration of the Soviet Union;
  - A new dream: Private sector and individual incentives at the center of the stage
  - Baby boom is over, demographics changes, people live longer and pension systems do not adapt;
  - Informality and the failed expectations of many uncovered
  - Pension reforms including defined contribution schemes expand in Latin America (Chile, Argentina, Peru, Colombia, Salvador, Mexico) and Europe and Central Asia (Sweden, Poland, Hungary, Kazakhstan, Latvia)
Phase 2: The expansion of Defined Contribution Schemes

1980s
- US Thrift Savings Plan and 401(k)s
- OECD 1988 Pension Report warning of DB unsustainability
- UK Seprs opt out

1990s
- 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)
Phase 3: Economic crisis, financial turmoil and the loss of trust in orthodox economics

• Milestones:
  - The 2008 crisis raises serious doubts about orthodox economic theory, even among prominent former supporters
  - Markets fail, and the state wins another battle
  - In the world of Defined Contributions,
    - incentives fail to produce the expected behavioral changes
    - poor results in coverage expansion and high costs erode public trust
  - Pension reforms reversed in several countries (ex: Argentina, Hungary, Poland)
  - Defined Benefit schemes prevail and non-contributory social pensions expand
Phase 3: The magic of market incentives failed, and reforms reverse and non contributory pensions on the rise

Pension coverage does not expand, despite reforms worldwide

Contributions in active life: 1990s vs 2010s
Phase 3: The return of DB and the expansion of non contributory Pensions

- Georgia shuts down contributory scheme
- Chile’s Social Pension
- LAC: Expansion of Social, non-contributory and partially-contributory pensions
- DC reform reversals
- 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
Phase 4: Technology and the changing nature of work. The expansion of non-contributory pensions

• Milestones:
  - Automation threatens employment, and while new jobs will also be created, they will be different in nature:
    - Increasingly more self-employment
    - Flexible work
    - Gig economy
  - Contributory schemes have failed to reach these forms of employment => Informality threatens expanding
  - In parallel, non-contributory basic pensions have expanded in several countries
  - Experts discuss the merits of universal basic income (UBI)
  - Personal data are digitized for most of the world’s population and capture information on consumption and assets
Summary

- **Phase 1:** Countries choose the contributory, publically managed DB model.

- **Phase 2:** Concerns about the financial sustainability of public DB schemes and private DB schemes leads to introduction of more mandatory and voluntary DC schemes.

- **Phase 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.

- **Phase 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.