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Global Pension Policies: Past and Present

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Pensions policy choices: A historical perspective

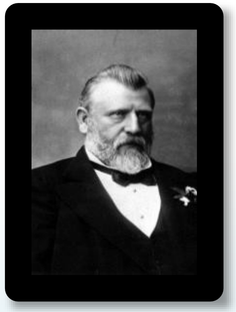
- Different pension models have strengths and weaknesses. There is not an absolute indicator to guide policy choice.
- The choice of a specific model is determined, to a large extent, by social preferences;
- Social preferences, in turn, are historically determined by socio-economic and political conditions;
- 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 **WWI** **1960s/70s**



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)

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

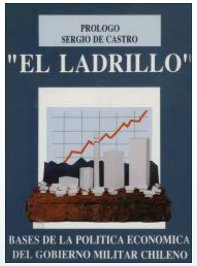
- Milestones:
  - ❑ 1970s – High inflation and the monetarist revival
  - ❑ Unmet expectations and frustration with public sector expansion
  - ❑ 1980s – Reagan and Thatcher bring to practice some of the ideas of the 70s, and gain adepts worldwide
  - ❑ 1990s - Socialism loses the battle: From the Berlin 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

1990s

2000s



Chilean reform

US Thrift Savings Plan and 401(k)s

UK Serps opt out

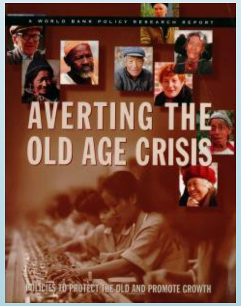
OECD 1988 Pension Report warning of DB unsustainability

Wave of DC reforms (second pillars) in Latin America

Wave of East European DC reforms

Italy, Sweden NDC

China DC or NDC?



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)

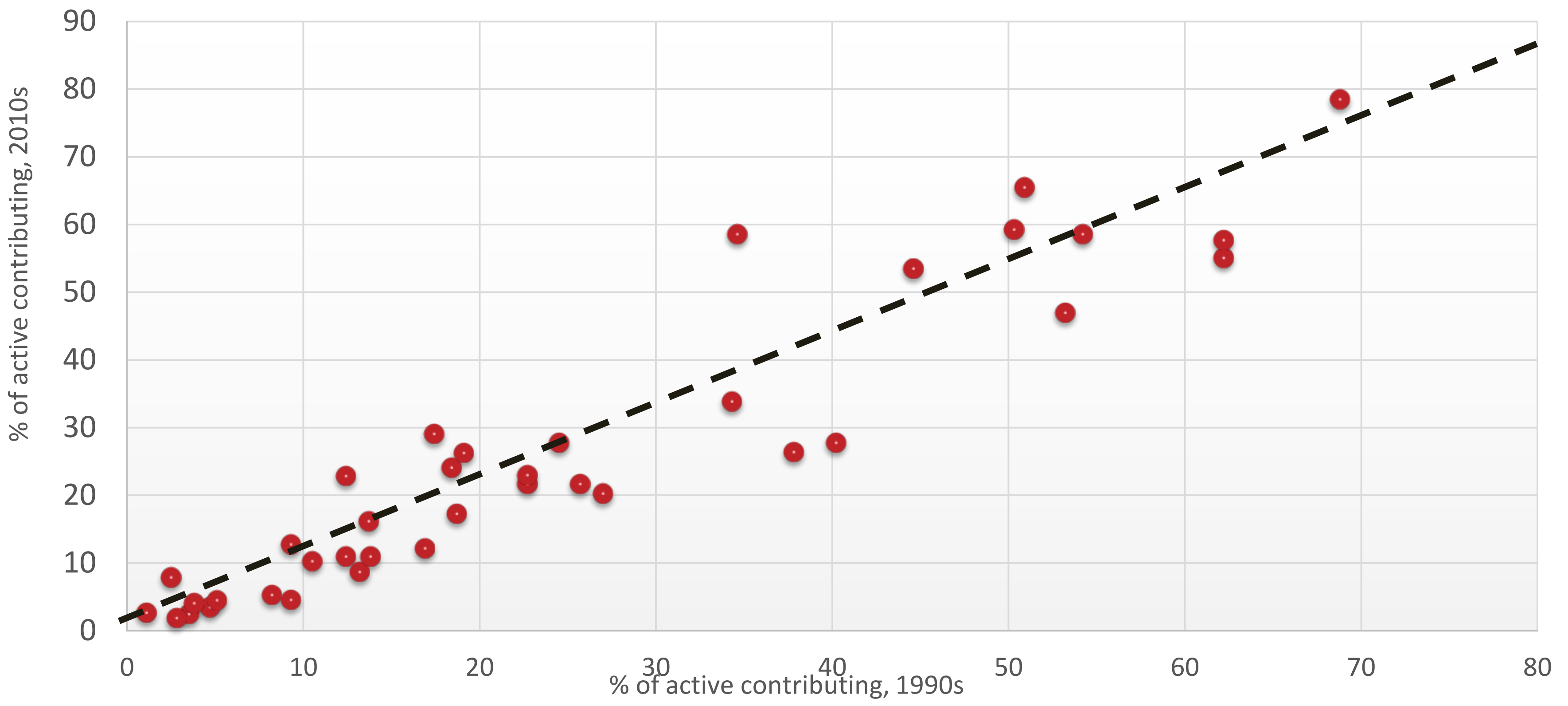
Phase 3: Economic crisis, financial turmoil and the loss of trust in orthodox economics

- 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

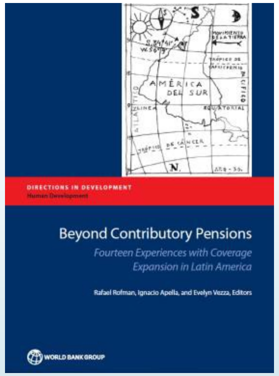
Chile's Social Pension

LAC: Expansion of Social, non-contributory and partially-contributory pensions

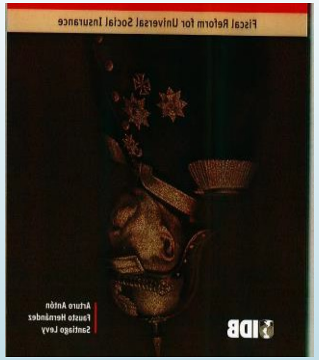
DC reform reversals

Thailand, Timor, Korea, Japan expand social pensions

Greek pension collapse

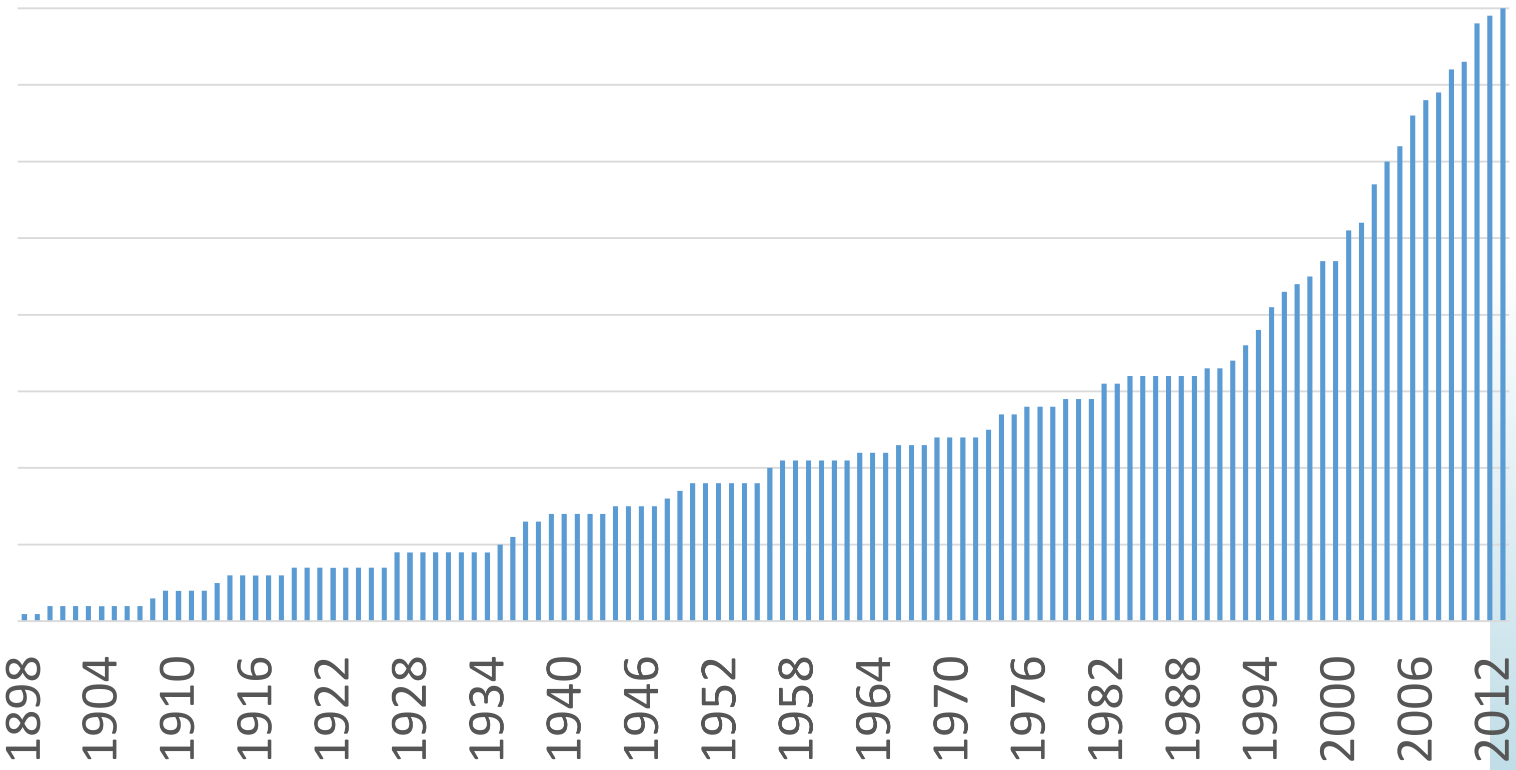


insurance – "universal social insurance (USI)"



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

- 80
- 70
- 60
- 50
- 40
- 30
- 20
- 10
- 0



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

- Phase1: 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 tradional 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