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The Political Economy of Pension Re-Reform in Chile and Argentina

Toward More Inclusive Protection

Katja Hujo and Mariana Rulli

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Contents

Acronyms

AFP	Administradora de Fondos de Pensiones *(Pension Fund Administrator)*
AFJP	Administradora de Fondos de Jubilaciones y Pensiones *(Retirement and Pension Funds Administrator)*
ANSES	Administración Nacional de la Seguridad Social *(National Administration of Social Security)*
APS	Aporte Previsional Solidario *(Solidarity Pension Complement)*
CEPAL	Comisión Económica para América Latina y el Caribe *(Economic Commission for Latin America and the Caribbean)*
DB	Defined benefit
DC	Defined contribution
DIPRES	Dirección de Presupuestos *(Budget Office)*
FGS	Fondo de Garantía de Sustentabilidad *(Guarantee Fund for Sustainability)*
GDP	Gross domestic product
IFF	Individual fully funded
IFI	International financial institution
ILO	International Labour Organization
IPS	Instituto de Previsión Social *(Pension Institute)*
MDG	Millennium Development Goal
PAP	Prestación Adicional por Permanencia *(Additional pension)*
PASIS	Pensiones Asistenciales *(Social pensions)*
PAYG	Pay-as-you-go
PBS	Pensión Básica Solidaria *(Basic Solidarity Pension)*
PBU	Prestación Básica Universal *(Basic Universal Pension)*
SAFP	Superintendencia de Administradores de Fondos de Pensiones *(Superintendency of Pension Fund Administrators)*
SPS	Sistema de Pensiones Solidarias *(Solidarity Pension System)*
SIPA	Sistema Integrado Previsional Argentino *(Argentinian Integrated Pension System)*
UNRISD	United Nations Research Institute for Social Development

Summary

This paper argues that reforms implemented in 2008, the re-nationalization of the private pension funds in Argentina and the introduction of a social pension in Chile have moved both countries toward greater social inclusion in old-age protection. In the case of Chile this was achieved in 2008 after extensive public debate and consultation processes. The non-contributory Sistema de Pensiones Solidarias (SPS) replaced the former minimum pension guarantee (which required 20 contribution years) and the means-tested social pension which also had a cap on the maximum number of transfers. The new solidarity pension is granted to elderly who are not eligible for other pensions, aged 65 and older, and have resided in the country for the last 20 years. Benefit coverage will be extended gradually to 60 per cent of the poorest elderly by 2012, reaching an estimated 1.3 million beneficiaries with a monthly benefit of USD 145. A broad agreement among specialists about the main problems and challenges of the private pension system and the strong fiscal position of the country have been identified as the main factors leading to a successful reform, which also included several parametric changes with regard to fund investment, gender equality and improved coverage of the contributory scheme.

In Argentina, after years of criticism and parametric reforms of the private pension fund system which had replaced the pay-as-you-go (PAYG) system in 1994 as part of a neoliberal reform agenda, the re-nationalization of private pension funds was implemented by the administration of Cristina Fernández de Kirchner at the outset of the global financial crisis in 2008. The actual absorption of pension savings accumulated in individual accounts by the national social security administration had been preceded by several reform measures, leading to a significant expansion of coverage of non- and semi-contributory pension benefits. The reform was criticized as a top-down decision, which missed the opportunity to create a broad-based consensus on the new pension system.

Alongside a strong discourse on coverage expansion and greater inclusion, financial and financing issues played a key role in both reforms. In Chile, a reform that was meant to guarantee the long-term financial and social sustainability of the private pension system was made politically possible because of increased revenues from mineral rents and declining transition costs related to pension privatization in 1981; in Argentina, the reform was a response to the perceived present and future fiscal costs of a privatized pension system and the immediate benefit of channelling accumulated funds into public coffers when these were needed for economic stimulus measures as a response to the global crisis.

Katja Hujo is Research Coordinator at the United Nations Research Institute for Social Development (UNRISD). Mariana Rulli is a lecturer in Political Science at the University of Rio Negro, Argentina. She is also doing her doctorate thesis at the Latin American School of Social Sciences (FLACSO) on the pension reforms in Argentina.

Introduction

Argentina and Chile were pioneers in Latin America in creating pension systems at the beginning of the twentieth century (Mesa-Lago 1978). They were also at the forefront of pension privatization in the 1980s and 1990s.[1] The Chilean pension reform of 1981 completely replaced the historical pay-as-you-go (PAYG) scheme with a new pension system based on individual capitalization accounts and private management, while reducing state responsibility to a minimum pension guaranteed for the insured who had contributed for at least 20 years. A decade after the this reform, Argentina followed the Chilean example in the context of Washington consensus reforms adopted in the early 1990s as one of the 12 Latin American countries that introduced multi-pillar pension systems advocated by the World Bank in its seminal publication, *Averting the Old-Age Crisis* (World Bank 1994). The Argentinian pension model implemented in 1994 differed, however, from the Chilean precedent on several accounts, mainly regarding the option to remain in a reformed public system (with tightened access criteria in terms of retirement age and contribution years) versus switching to a mixed model combining a flat basic pension with individual fully funded (IFF) accounts modelled after the Chilean reform.

The most recent reforms implemented in 2008—the re-nationalization of private pension funds in Argentina and introduction of an extended social pension programme in Chile—have moved both countries toward greater social inclusion in old-age protection. Nevertheless, this has been pursued in very different ways and with different reform outcomes, which raises several questions: are we, after three decades of privatization models dominating pension reform, witnessing an emerging paradigm shift in pension policy in the region, characterized by a greater role for the state, and more emphasis on coverage and redistribution? What were the reform drivers and what is the likely social and economic impact of reforms? Are the new systems sustainable in economic and political terms?

The 2008 reforms enacted in Argentina and Chile were justified by similar concerns about the unsatisfactory performance of privatized pension systems in terms of coverage, equity and efficiency, but reform measures and processes differed substantially. In terms of reform measures, Argentina implemented a radical return to the previous defined-benefit (DB), public PAYG system by eliminating the private component of its mixed system and transferring private savings toward the public social security administration, whereas Chile maintained private pension accounts and the defined-contribution (DC) approach and strengthened mainly the non-contributory poverty reduction pillar. While in Chile there was a wide public debate and participation of key stakeholders throughout the decision process, the Argentinean reform was quickly pushed through parliament without any major debate on reform options that had been suggested by parliamentarians, civil society actors and academics.[2]

Alongside a strong discourse on coverage expansion and greater inclusion, financial issues played a key role in both reforms. In Chile, a reform that was meant to guarantee the long-term financial and social sustainability of the private pension system was made

[1] Arenas de Mesa and Mesa-Lago 2006; Barrientos 1998; Mesa-Lago 2001, 2004; Arenas de Mesa and Bertranou 1997; Hujo 1999; Hujo et al. 2004.

[2] MTSS 2003; Lo Vuolo 2008; Mesa-Lago 2009a.

politically possible because transition costs related to pension privatization had declined substantially, while public revenues from mineral production boomed. In Argentina, the reform was a response to the impact of the financial crisis on pension funds, the estimated current and future fiscal costs of the privatized pension system, as well as the immediate benefit of channelling accumulated funds into public coffers in order to finance economic stimulus measures as a response to the global financial crisis in 2008.

In this paper, we aim to analyse and evaluate the last pension reforms in Chile and Argentina against the historical context of neoliberal pension reform in the 1980s and 1990s. We examine three main aspects of the "re-reforms". First, using a political economy and comparative approach we study the policy-making process of the reforms in both countries Second, we conduct a preliminary assessment of the economic and social impact of the reforms. And third, we draw lessons from the Argentinian and Chilean experience on re-reforming privatized pension systems in terms of relevance of specific political constellations, economic and social implications and future sustainability.[3]

The paper is organized in three sections. We first discuss structural pension reforms implemented in Latin America during the 1980s and 1990s with a special focus on Chile and Argentina, whose pension reforms were considered models in the region and beyond. We then analyse the political process of the recent reforms in Chile and Argentina, in particular the influence of past institutional legacies, the reform context, relevant actors and their strategies, in order to understand the different reform outcomes. We then conduct a comparative evaluation of the economic impact of the new pension systems (regarding fiscal sustainability, investment and employment), and a comparative analysis of the social impact of the new pension systems (regarding coverage and adequacy, gender equity, social solidarity and participation). Last, we summarize findings and policy lessons emerging from the two case studies.

The Structural Reforms in Latin America

The privatization of the Chilean pension system in 1981, by that time considered to be an exceptional neoliberal experiment implemented by an authoritarian regime, became a role model and mainstream policy advice for pension reforms in the 1990s (Hujo forthcoming). Based on the recommendations of the Washington consensus (Williamson 1990) and international credit agencies such as the World Bank (World Bank 1994),