

Reassessing Pension Reform in Chile and Latin America

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Table 1. Features of Public and Private Social Security Pension Systems

Features	Systems	
	Public	Private
Contribution	Non-defined	Defined
Benefit	Defined	Non-defined
Financial regime	Pay-as-you-go (PAYG) or partial collective funding (PCF)	Fully-funded, individual (FFI)
Administration	Public	Private or multiple

Table 2. General Models and Features of the Eleven Pension Reforms in Latin America, 2002

Model	Country and date of implementation	System	Contributions	Benefits	Financial regime	Administration
Substitutive	Chile: May 1981 Bolivia: May 1997 Mexico: Sept. 1997 El Salvador: May 1998 Nicaragua: 2003 Dominican Rep 2003-5	Private	Defined	Non-defined	FFI	Private
Parallel	Peru: June 1993 Colombia: April 1994	Public or Private	Non-defined Defined	Defined Non-defined	PAYG FFI	Public Private
Mixed	Argentina: July 1994 Uruguay: April 1996 Costa Rica: May 2001	Public and Private	Non-defined Defined	Defined Non-defined	PAYG FFI	Public Multiple

Table 3. Insured (Affiliates) in the Public and Private or Mixed System, 2001

Model	Country	Total insured	Public system		Private or mixed system	
		Thousands	Thousands	% of total	Thousands	% of total
Substitutive	Chile	6,627	200	3	6,427	97
	Bolivia	675	0	0	675	100
	Mexico	26,518	0	0	26,518	100
	El Salvador	975	55	6	920	94
Parallel	Peru	2,882	150	5	2,732	95
	Colombia	8,902	4,566	51	4,336	49
Mixed	Argentina	11,258	2,199	20	8,920	79
	Uruguay	1,179	602	51	577	49
	Costa Rica	889	889	100	889	100

Table 4. Freedom of Choice of the Insured in Eleven Reforms, 2002

Model	Country	Between systems		Between administrators	
		Current insured	Future insured	Annual changes	Name (abbreviation)
Substitutive	Chile	May choose between public and private within a deadline	Must join private system	Four	AFP
	Bolivia	Must transfer to private system		None	AFP
	Mexico			One	AFORES
	El Salvador	Grouped by age; only middle group has option		One	AFP
	Nicaragua	Grouped by age; -43 must move to private, few can stay		One	AFP
	Dom. Rep.	Grouped by age; -45 must move to private		One	AFP
Parallel	Peru	May switch from public to private, but not the reverse	Must join private system	Unlimited	AFP
	Colombia	May switch between public and private system every three years	May choose between public and private	Two	SAFP
Mixed	Argentina	May switch from the public to the mixed but cannot return to the public	May choose between public and mixed	Two	AFJP
	Uruguay	Grouped by age; young must join mixed and older were allowed to choose between public and mixed	Must join mixed	Two	AFAP
	Costa Rica	Must join mixed		One	OPC

Table 5. Percentage of the Labor Force Covered by the Two Systems, 2001

Model	Country	Based on affiliates	Based on active contributors
Substitutive	Chile	112	60
	Bolivia	21	10
	Mexico	64	28
	El Salvador	39	21
Parallel	Peru	26	11
	Colombia	51	24
Mixed	Argentina	70	22
	Uruguay	77	60
	Costa Rica	53	53

Table 6. Percentage of Affiliates Who are Active Contributors in the Private System, 2001

Model	Country	Affiliates Thousands	Active contributors Thousands	Active contributors/ affiliates (%)
Substitutive	Chile	6,427	3,450	53.7
	Bolivia	676	317	47.0
	Mexico	26,518	11,853	44.7
	El Salvador	920	489	53.2
Parallel	Peru	2,732	1,125	41.2
	Colombia	4,336	2,112	48.7
Mixed	Argentina	8,843	2,562	29.0
	Uruguay	597	318	53.3
	Costa Rica	889	889	100.0

Table 7. Competition Between Administrators in the Private System, 2001-2002

Model	Country	Affiliates Thousands	Number of administrators	Insured in the top three administrators (%)
Substitutive	Chile	6,427	7	79
	Bolivia	676	2	100
	Mexico	26,518	12	37
	El Salvador	920	3	100
Parallel	Peru	2,732	4	76
	Colombia	4,336	6	65
Mixed	Argentina	8,843	12	58
	Uruguay	597	4	87
	Costa Rica	889	9	51

Table 8. Administrative Costs in the Private System, 2001 (as a percentage of wages)

Model	Country	Deposit in the individual account	Administrative costs (commission and premium)	Total deductions	Administrative costs as a percentage of total deductions
Substitutive	Chile	10.00	2.44	12.44	19.61
	Bolivia	10.00	2.21	12.21	18.10
	Mexico	10.73	4.53	15.26	29.68
	El Salvador	9.50	2.98	12.48	23.87
	Dominican Rep.	3.50	1.50	5.00	30.00
Parallel	Peru	8.00	3.73	11.73	31.80
	Colombia	10.00	3.50	13.50	25.93
Mixed	Argentina	2.73	2.27	5.00	45.40
	Uruguay	12.26	2.74	15.00	18.26
	Costa Rica	4.50		n.a.	n.a.

Table 9. Accumulated Funds and Real Investment Returns, 2001

Model	Country	Accumulated fund		Average annual real returns (%)
		Millions of US dollars	Share of GDP (%)	
Substitutive	Chile	35,461	55.0	10.70
	Bolivia	936	11.0	15.76
	Mexico	26,987	4.3	11.04
	El Salvador	768	5.5	12.62
Parallel	Peru	3,589	6.6	6.0
	Colombia	4,956	6.0	7.38
Mixed	Argentina	20,786	7.4	7.95
	Uruguay	1,045	6.1	8.44
	Costa Rica	23	0.1	n.a.

Table 10. Fiscal Costs of the Reform, 2002

Model	Country	Government financial responsibilities		
		Covers the public system deficit	Pays recognition bond	Guarantees minimum pension
Substitutive	Chile	Yes	No ceiling, adjustable to inflation, earns 4% real annual interest, requires previous contributions	Yes
	Bolivia		Has a ceiling, adjustable, unclear whether earns real interest, requires one month of contribution	No
	Mexico		No	Yes
	El Salvador		No ceiling, not adjustable, earns real interest equal to inflation, requires previous contributions	Yes
	Nicaragua		No ceiling, not adjustable, earns no interest, requires one year of previous contributions	Yes
	Dom. Rep.		No ceiling, adjustable, earns 2% real interest, requires previous contributions	Yes
Parallel	Peru	Yes	Has a ceiling, adjustable, earns no interest, requires 4 years of previous contributions	Not initially (then recognized by law but not implemented)
	Colombia		Has a ceiling, adjustable, earns 3% real interest rate, requires 3 years of previous contributions	Yes (with limitations)
Mixed	Argentina	Yes	No ceiling, adjustable, earns no interest, requires 30 years of previous contributions (paid by the first pillar--public system)	Yes (paid by the first pillar-- public system)
	Uruguay	Yes	No	
	Costa Rica	No	No	

Table 11. Percentage Distribution of Investment Portfolio by Financial Instrument, 2001

Model	Country	Government Debt	Financial institutions	Non-financial institutions	Stocks	Mutual and investment funds	Foreign issuers	Others
Substitutive	Chile	35.0	32.5	6.2	10.6	2.6	13.1	0.0
	Bolivia	73.2	10.5	13.4	0.0	0.0	0.0	2.9
	Mexico	89.8	2.4	7.8	0.0	0.0	0.0	0.0
	El Salvador	80.7	17.7	0.9	0.7	0.0	0.0	0.0
Parallel	Peru	13.8	37.2	16.4	24.7	0.5	4.8	2.6
Mixed	Argentina	68.1	10.9	1.7	10.2	3.3	1.8	4.0
	Uruguay	61.2	35.4	1.7	0.0	0.0	0.0	1.7
	Costa Rica	91.5	3.0	5.5	0.0	0.0	0.0	0.0