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Reforming Pensions in Developing and Transition Countries: Trends, Debates and Impacts

Katja Hujo

Introduction

In the recent globalization period, pension systems have featured as one of the most dynamic areas of social policy reform and attracted widespread attention from scholars and policymakers. In the 1990s, after years of reform impasse, a number of industrialized countries (for example Germany, Italy and Sweden) introduced substantial pension reforms, while others have recently implemented reform amid widespread popular contestation (France, Greece). A set of developing and transition countries as diverse as Peru, Nigeria and Uzbekistan (Table 1.1) have radically reformed their public pension systems, usually involving a shift towards more market-based schemes through the introduction of privately administered pension funds based on individual capitalization. Other countries have been more cautious in their reform efforts or have postponed major reforms, as was the case in the Arab countries before the onset of the Arab Spring and with some of the newly emerging powers (the so-called BRICS – Brazil, Russia, India, China – and South Africa). Finally, we observe pension reforms with an emphasis on poverty reduction and social inclusion in such different contexts as Bolivia, Argentina and Chile, the latter being a country that had spearheaded the private pension model and is now looking for ways to strengthen the social functions of its old-age system.

Income protection during old age is a key social policy challenge in a world with a rapidly growing older population, coverage gaps of formal insurance programmes due to rising informality and strains put on informal protection mechanisms in a context of changing family patterns and increased migration. Against this backdrop, it is an issue of concern that the capacity of individuals to finance pensions is often constrained by their inability to save or contribute sufficiently to insurance programmes to earn a decent old-age income (Figure 1.1). At the same time, prospects for states to take up this responsibility are bleak, since pressures for fiscal austerity and states' limited revenue mobilization capacity constrain the fiscal space of governments to provide income transfers to the elderly on a non-contributory basis.

Notwithstanding these limitations, in most developed and many developing countries, pension schemes today are the most important social protection instruments for reducing old-age poverty in terms of their coverage and expenditure levels,[1] while they are gaining importance in poorer countries that so far have relied primarily on informal safety nets. As Figure 1.1 shows, current coverage levels measured as the share of population above the legal retirement age in receipt of a pension are above or close to 90 per cent in Europe and the Commonwealth of Independent States (CIS),[2] around 50 per cent in Latin America and the Caribbean, around 30 per cent in Asia, North Africa and the Middle East, and 15 per cent in Sub-Saharan Africa. Future coverage levels in pension insurance are likely to be significantly lower, however, because of declining current shares of contributors to the working population. Old-age related public expenditure is highest in Europe, with Austria and Italy at the top of the list (around 12 per cent of gross domestic product, GDP), but with very low expenditure levels still prevailing in Sub-Saharan Africa and some Asian countries (Figure 1.1). Consequently, poverty in old age is still a challenge, especially but not exclusively for low-income countries with low spending and coverage rates, but also because pension benefits are often too small to lift the elderly above the poverty line.[3]

Since the international community agreed at the start of the new millennium to make poverty reduction its primary goal, the protective and redistributive function of pensions, in particular social pensions, has gained prominence in the run-up to 2015, when the Millennium Development Goals (MDGs) are due to be achieved. Another milestone in the promotion of social security was the adoption of Recommendation No. 202 by the 2012 International Labour Conference on National Social Protection Floors (ILO 2012), a tripartite commitment of states and social partners to provide basic income guarantees and access to basic social services such as education and health for the entire population and across the lifecycle.[4] Several international organizations (for example the World Bank, the Economic and Social Commission for Asia and Pacific, ESCAP, and others) have recently released social protection strategies including old-age protection to guide their global strategies as well as their operations at the country level.[5]

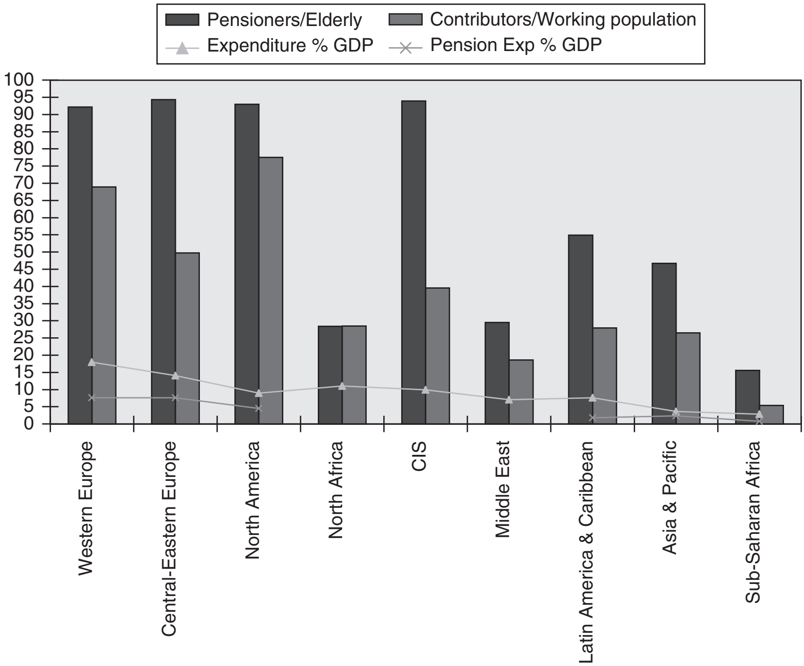

Figure 1.1 Coverage of pension programmes and public social security/old-age expenditure, regional averages

Notes: Coverage indicators:

Pensioners as per cent of population above legal retirement age (present coverage indicator)
Contributors as per cent of working age population (future coverage indicator).

Expenditure (excluding health) as per cent of GDP, regional averages (includes old age, survivors and disability pensions, work accidents, unemployment, family allowances).

Pension Expenditure as per cent of GDP, own calculations based on ILO 2010, table 26; no data for CIS and MENA, selected countries.

Source: ILO 2010: table 21, 25, 26, latest available year, selected countries, ILO online Global Databases on Social Security: http://www.social-protection.org/gimi/gess/ShowTheme.do?tid=10&ctx=0 (accessed 9 January 2014).

Pensions are not only interesting from the point of view of social protection: they also play a central role in economic development, via their impact on state budgets, the financial and monetary sector, aggregate demand, productivity and investment. Since the financial crisis of 2007–2008, the issue of contingent liabilities such as implicit pension debt (future obligations states have vis-à-vis current and future cohorts of pensioners) gained renewed attention in a context of sovereign debt crises, austerity policies and population ageing (European Commission 2012) – a concern that had already been articulated in the case of the Latin American pension privatizations in the 1990s (Hujo 2004; Datz 2012).

Furthermore, pension systems are constitutive pillars of a country's welfare regime,[6] whether they are based on citizenship/universal rights or labour rights, reflecting how societies recognize different types of paid and unpaid work, how they redistribute income and risk across gender, income groups and generations, and what role they attribute to public and private institutions in social protection.[7]

History shows that social protection schemes for the elderly are constantly evolving and adjusting to changing circumstances. This is because of the long time horizon under which programmes operate and the complex set of variables that influence the roles and functioning of pension systems. As Brooks (2009: 5) rightly observes, the question is not *whether* existing pension institutions change, but rather *how* they change: will they continue along the lines of a previously chosen system and maintain its underlying principles with only incremental changes being implemented, or will they undergo more fundamental reforms, changing the hitherto existing welfare paradigm? What explains the decision for or against a specific reform and what outcomes do reforms produce?

This book addresses the political economy of the most recent pension reforms in different contexts, the relative benefits in terms of social and economic development of various models for pension systems (for example, pay-as-you-go [PAYG] versus funded systems, decentralized models versus National Provident Funds, contributory versus non-contributory programmes) as well as challenges to managing and reforming pension systems in development and transition contexts. It aims to provide the reader with new evidence and debates related to pension policy and its developmental implications.

In order to prepare the common ground for the case studies compiled in this volume, which are briefly summarized at the end of this chapter, this introduction lays out some of the key concepts and debates around old-age protection and pension reform in a development and transition context. A comparative analysis of the findings of the different case studies as well as policy implications and lessons are discussed in the concluding chapter.

Pensions and Development

One of the aims the United Nations Research Institute for Social Development (UNRISD) project on pensions, of which this volume is the main outcome, was to study the relationship between pension systems and economic development from a historical and contemporary perspective (Hujo and McClanahan 2009; UNRISD 2010). It aimed to shed light on the developmental functions of social policy, that is, social policy's impact on growth and structural change, and the potential to combine development objectives with intrinsic values of social policy from a perspective of human rights and democracy (Mkandawire 2004: 1).[8]

Pension systems incorporate in an ideal way the multiple functions of social policy (UNRISD 2006).[9] Pensions reflect the *protective role* of social policy by guaranteeing income security and preventing poverty during retirement or old age (or in cases of disability or death of the main earner), the *productive role* through accumulation of domestic savings (contributions) and demand stabilization (benefits), the *redistributive role* through risk and income redistribution between different groups of insured and across generations, and the *reproductive role* by reducing the financial and care burden associated with ageing, thereby improving gender equity and supporting households in their efforts to maintain a healthy and educated family and a functioning social fabric.[10]

For developing countries, where social security, and in particular pensions, are often deemed a luxury or a feature of industrialized welfare states, the productive function of social policy is of special importance. UNRISD (2010: ch. 5) identifies several channels through which pension schemes contribute positively to economic development (pp. 141–142):

- Pension programmes, in particular contributory occupational plans, provide incentives to both employees and employers to undertake long-term investments in skills, allowing firms to pursue a pattern of economic specialization based on the production of high-value-added goods, thus influencing the growth path of the economy.
- Pensions, in particular non-contributory schemes, guarantee social reproduction in households that are affected by contingencies (for example, maternity, sickness or unemployment) or poverty, potentially fostering local development through increased income security and diversification of assets and livelihoods.
- Income replacement programmes such as pension benefits (so-called automatic stabilizers) have positive effects on macroeconomic stability, as they help smooth economic cycles and avoid deflationary recessions by stabilizing demand and domestic markets.
- Pension programmes, especially funded ones, can be a source of finance, in particular during the build-up phase, when accumulation of contribution payments exceeds expenditures on benefits.[11]

- Pension programmes, like other social protection programmes (especially if they are universal), have a beneficial effect on social cohesion and political legitimacy, which are key ingredients for an investor-friendly environment with potentially positive effects on different types of investments including foreign direct investment (FDI). They may also have a positive influence on individual and institutional behaviour, in terms of risk-taking, labour mobility, long-term planning, accountability and financial sector development.
- The prospect of participating in earnings-related social protection schemes can contribute to greater labour market formalization, with possible positive spin-off effects on income levels and state revenues.

Although these benefits are evidence-based and widely recognized (ILO 2001, 2010), heated debates evolve around the specific economic effects and risks of alternative pension system designs or models, which differ with regard to financing method (funded versus PAYG; tax-financed versus contribution-financed), redistribution and risk (contribution-benefit link, defined benefit versus defined contribution), and governance (public versus private, centralized versus decentralized). As we will discuss below, framed in a blunt bipolar view, neoclassical monetarist economists tend to favour funded, non-redistributive, private, decentralized defined-contribution schemes, while other economic and social science schools of thought tend to argue for the superiority of PAYG, redistributive, public, centralized defined-benefit pension systems. These preferred or ideal models reflect basic assumptions, value premises and growth theories of different paradigmatic positions. Development economists are especially interested in the impact of pension systems on national savings as a driver of investment and growth. In contrast to other social policy branches such as social services (for example, education), health insurance, unemployment benefits and social assistance, which function on a flow or PAYG basis, pension schemes accumulate stocks if they are financed via capitalization.[12] Funded pension plans increase national savings rates during the accumulation phase and can have a positive impact on investment and monetary stability.[13] However, this premise builds on several assumptions – the assumption that pension schemes are newly introduced (no transition from a PAYG system), that forced savings are higher than previous voluntary savings, and that current pensioners do not receive tax-financed benefits without having saved (which would partly offset the effect of accumulating new funds).

The role of pension funds as a domestic source of finance has been studied in several countries. In Finland, for example, funds from the partially funded pension scheme were used in the post-war era for investments in housing, electrification of the country and to build up national industry (Kangas 2009). Provident funds in East Asia, for example in Hong Kong (Province of China), Malaysia and Singapore, have partly financed domestic investment, housing in particular, or contributed to stabilization through forced savings and investment of funds abroad (Asher 2009).

Not surprisingly, the arguments that pension funds foster domestic savings and investment have featured prominently in those countries that had institutionalized pension systems during the developmentalist era, notably in the 1960s and 1970s, as examples from Africa and Asia show (Charlton and McKinnon 2001; Kpessa 2011). However, critics have also pointed to the risks associated with state-run pension funds or partially funded schemes, both market and political risks, as well as their shortcomings in providing sufficient and stable lifetime pension payments (Asher 2009; Datz 2012).

The pension-development link regained importance in the 1990s during the Washington Consensus social sector reforms, which advocated pension privatization as a means to balance fiscal accounts and to promote savings, labour market formalization, capital and financial market development and growth (World Bank 1994).

As we have seen, pensions have been identified as an instrument of economic growth policy in two very different development eras, first during the period where state-led development paradigms dominated, and secondly in the period of market-led development. The suggested design of the ideal pension programme differed according to the dominant economic paradigm it was added on to: during state-led development, both national provident funds and PAYG-financed public schemes were in vogue, whereas individual savings accounts modelled according to principles of market insurance were increasingly promoted when the neoclassical orthodoxy regained momentum in the early 1990s.

Why Reform Pension Systems?

When does the issue of pensions and their economic impact become a focus of policy agendas? The relationship between pensions and development becomes a political issue more frequently during periods where programmes are first institutionalized or significantly expanded (expansion being attractive for policymakers when schemes still run a surplus), but also in times of crisis. This is especially so if crises occur in contexts of ongoing structural changes such as ageing and labour market flexibilization (Latin America, Europe), in transition countries (the former Soviet Union, Central Eastern Europe) and in developing countries experiencing fast socio-economic or political transformations (China, South Africa) or significant involvement of international donors and advisors (indebted countries, low-income countries), although none of these factors determines a priori which model will be introduced (Brooks 2009).

As we will see in the following sections and as shown in different chapters of this volume, once pensions are inscribed in policy agendas, the way in which pensions are linked to economic themes in reform debates depends both on global paradigms or policy models and on the country context as well as on actors involved in the reform process: in the more developed countries pensions are frequently discussed in relation to labour market problems (which can be explained by high payroll taxes that increase labour costs) or fiscal sustainability (if government subsidies are high or likely to rise), or with regard to questions of equity and equal treatment (discrimination of women, privileges of civil servants, etc.). In developing countries challenges related to coverage of social protection programmes and old-age poverty dominate policy debates, often departing from the premise that the "social wage" is largely absent from the reality of the majority of the population and therefore a concept of limited use. In middle income countries, fiscal, financial and debt issues can strongly influence reform outcomes, as the case studies on Argentina, Chile (Chapter 10) and South Africa (Chapter 8) show.

The following section summarizes key parts of the debate on factors leading to pension reform, followed by an analysis of how pension systems have emerged and changed against such challenges and contexts.

Pension systems and reform drivers

Pension systems are designed to provide income security in old age. They fulfil several objectives such as consumption smoothing (through accumulation of savings/entitlements for periods without wage or other income), insurance (against longevity, disability, death of the main earner), poverty reduction or prevention and redistribution (Barr and Diamond 2009). In macroeconomic and political terms, they contribute to the stabilization of consumption and demand as well as to social and political stability, allowing older people to age with dignity, especially when they live on their own, but also as members of multigenerational households where they often contribute financially and through unpaid work for the extended family (Lloyd-Sherlock 2004; Samson and Kaniki 2008).

As part of early welfare state development, pension systems were introduced in most industrialized countries at the end of the 19th century and expanded rapidly after the Second World War until the 1970s.[14] In the developing world, the evolution of old-age protection has followed more diverse paths: public pension schemes were created at the beginning of the 20th century in several of the more developed Latin American countries, reaching quasi-universal coverage of formal sector workers in the 1960s and 1970s (Mesa-Lago 1978), and later in Asia, Africa and the Middle East. These often built on previous colonial schemes and, with some exceptions, covered only small fractions of the formal labour force such as employees in the civil service and the private formal sector (ILO 2010). Transition countries, that is countries that have recently transformed from central planning to market economies, have a mixed inheritance of pre-socialist welfare systems, as in Central Eastern Europe (Hungary, Poland, Czech Republic), and socialist social protection policies, usually resulting in higher coverage rates when compared with countries of similar income levels.[15]

Once pension schemes are established, there are several reasons why countries choose to reform them:[16]

- Reforms can be deemed necessary to realize long-term objectives such as universal coverage of the elderly population with adequate retirement benefits (with long-term objectives also being subject to modifications in response to rising living standards and changing social expectations);
- Reforms are deemed necessary or demanded because of changes in context variables which are internal or external to the system and which have implications for its functioning: for example structural changes in demographics, family relations or labour markets, or fiscal problems, external shocks, economic crisis, etc.
- Reforms are demanded because of current or expected future problems in existing programmes (financial sustainability, effectiveness, efficiency, transparency, equity etc.);
- Reforms are initiated and specific reform models are promoted because of changes in ideology, power constellations, and interest coalitions (including external or transnational actors).
- Being part of broader reform packages, pension reform can be geared towards supporting reforms in other areas, such as fiscal policy or market-oriented structural reforms.

Trends in Pension Reform

Interestingly, although pension schemes are constantly evolving and adjusting over time, they have also been characterized as specifically reform resilient, path-dependent and locked-in.[17] This has been explained by the fact that any retrenchment in pension benefits is extremely unpopular and usually sanctioned by a well-organized part of the electorate, and consequently of little attraction to policymakers. In addition, pension systems are often based on a broad political coalition of different political parties, which isolates their basic structure from the volatility of electoral policy cycles. As a result, over decades most reforms have led to more or less significant parametric changes while leaving the basic social contract intact: in mature welfare states reforms have aimed to increase equity through recognition of non-contributory periods (maternity, education, unemployment, military service, voluntary work, etc.), while restoring actuarial balance through changes in benefit formulas, contribution rates and retirement age. In less mature welfare states, by contrast, some expansion of benefits has also taken place – for example through the incorporation of new groups of beneficiaries, increases in replacement rates – before austerity policies began to dominate reform measures. Paradigmatic reforms changing the basic rules and normative values of pension systems were virtually non-existent before the 1990s (with the exception of Chile's reform in 1981). The most significant – but largely unintended – reform in the post-war period has been a change from collective funding to PAYG financing in several countries that had undergone monetary and financial crises and high inflation resulting in a gradual decapitalization of accumulated reserve funds (for example in Germany, Finland, Argentina and Ghana).

This overview of the institutional resilience of public pension provisioning has changed dramatically, as the volume by Mitchell Orenstein (2008) and a vast literature on structural pension reforms in a diverse set of countries around the globe demonstrate.[18] More than 30 countries have partially or fully privatized their former public pension systems since the 1990s, moving away from the former defined benefit (DB) PAYG-financed public schemes and introducing multi-pillar pension systems including a defined contribution (DC) tier in the form of individually fully funded (IFF) private savings accounts (see Table 1.1).[19] Several countries, especially developed countries that have not opted for privatization have nevertheless introduced reforms that strengthen the contribution-benefit link in pension financing, for example in form of notional (also labelled non-financial) defined contribution (NDC or NFDC) systems, and increased incentives for voluntary private retirement savings.

A second parallel reform trend, which will be discussed in depth later in this chapter, is the expansion of non-contributory or social pensions in a number of middle- and low-income countries (Holzmann et al. 2009; Hujo and Cook 2012). As part of multipillar pension reform, these reforms were implemented in order to make the introduction of IFF pension accounts acceptable (for example in Bolivia: see Chapter 9), or in order to address some of the adverse reform outcomes such as individualization of risks and declining coverage in the new systems (for example in Chile: see Chapter 10).

What explains this wave of market-oriented pension reforms, bearing in mind the different motives we have laid out in the beginning of this section? And why were some regions, in particular South Asia and the Middle East and North Africa (MENA) region, less concerned? When did countries come to focus on social pensions? As will be argued in the following paragraphs, a mixture of the motives we mentioned previously can be found in each country that has introduced parametric or more systemic reforms for old-age protection in the recent past (Table 1.1):

- Many existing pension systems were under reform pressure due to design and performance problems such as limited coverage, increasing costs and inequities;

Table 1.1 Pension privatization, 1981–2012

Year of implementation	Country	Year of implementation	Country
1981	Chile	2002	Estonia
1986	UK	2002	Bulgaria
1993	Peru	2002	Croatia
1994	Argentina	2003	Dominican Republic
1994	Colombia	2003	Russian Federation
1996	Uruguay	2003	Slovakia
1997	China	2004	Lithuania
1998	Hungary	2005	Nigeria
1998	El Salvador	2005	Taiwan Province of China
1998	Kazakhstan	2006	Macedonia
1999	Sweden	2007	Uzbekistan
1999	Poland	2008	Romania
2001	Costa Rica	2008	Panama
2001	Latvia	2010	Ghana
2002	Kosovo	2010	Kyrgyzstan

Source: Author based on Orenstein 2011, World Bank 2012a, ISSA 2012a, 2012b, 2013a, 2013b.

- Population ageing, maturing PAYG schemes and labour market informalization or rising unemployment increased the costs of pension systems, potentially threatening competitiveness of economies and investors' perceptions of economic fundamentals;
- Globalization and neoliberal policies forced governments to rethink the costs of public social protection policies and to align social sector reforms with the broader macroeconomic policy frameworks they had adopted.

The literature on the political economy of pension privatization gives various explanations of the main drivers that have led to the radical reform approach: objective factors such as ageing, implicit pension debt (claims of the insured on current and future governments to honour pension payments), fiscal costs, coverage and credibility of the existing system, globalization, dependence on external donors and investors – all these have played a role (Müller 2003; Orenstein 2008). However, the threat of high fiscal transition costs and potential adverse market reactions have acted against structural reform in countries such as Brazil (see Chapter 5) and in the Republic of Korea (see Chapter 4). Internal and external political factors such as partisan politics, parliamentary majorities, reform strategies and the influence of international organizations such as the World Bank are also deemed important in explaining structural reforms, but again we observe that different actor constellations and political orientations were behind privatization reforms, with the result that there are differences in scope and design (Brooks 2009).

The case studies presented in this volume will shed some light on the political processes that have led to specific pension reform outcomes, especially the chapters on Central Eastern Europe, the Republic of Korea, South Africa, Bolivia, and Chile and Argentina.

Finally, few studies have investigated the drivers of social pension reform (are they different from the drivers of contributory pension reform?) or explained the absence of reforms in regions such as MENA and large parts of Asia – questions that subsequent chapters in this volume aim to address.

The next section describes the different models in more detail before we move on to discuss the social and economic impact of reforms.

Pension Models Revisited

As noted in the previous section, according to different country contexts and influenced by global development paradigms, various models for organizing income security for older people have emerged across time. In some cases the models built on a particular country case (historically, for example, on the German or the Danish models to distinguish between contribution–financed earnings-related schemes and tax financing of flat benefits, and more recently on the Chilean private funds or the Swedish NDC model[20]), in others to theoretical or conceptual models – for example the World Bank model or the Provident Fund model, or the NDC model. This section introduces the main reference points in this debate.[21]

Models before the 1980s: Bismarck versus Beveridge

Before 1980, pension systems around the globe generally followed one of the following models:

1. Contribution-financed earnings-related, defined benefit schemes, with different levels of funding, mostly PAYG financed or partially funded (Bismarckian schemes);
2. National provident funds (NPFs) as contribution-financed, earnings-related and fully or partially funded defined contribution schemes;
3. Tax-financed flat rate schemes (Beveridgean schemes).

In the more developed welfare states, pension schemes were usually composed of several tiers, combining mandatory earnings-related programmes or basic pensions with voluntary savings for retirement (private or occupational), and contribution-financed insurance with tax-financed social assistance (means-tested) to prevent poverty.

While NPFs were inherited from former colonial systems, tax-financed basic pension schemes were more frequently found in liberal or social-democratic welfare regimes because of the explicit objective of preventing poverty in old age or delinking entitlements from labour market participation (decommodification). The Bismarck model, with its main objective of status maintenance, prevailed in the corporatist welfare regimes of continental Europe and Latin America.

In the south, NPF as well as the contributory Bismarckian model dominated pension system design, in practice resulting in hybrid and fragmented systems failing to reach universal coverage due to labour market informality and inequities between different groups of insured and between insured and non-insured. Some African countries (Mauritius, South Africa, Namibia, Botswana and Lesotho) established non-contributory pension programmes in line with Beveridge principles,

Table 1.2 Overview pre- and post-reform pension systems in country case studies

Country	Pre-reform system	Type of reform and post-reform system	Date of reform
Poland	Public PAYG-DB	Privatization & multi-pillar system	1999
Hungary	Public PAYG-DB	Privatization & multi-pillar system	1998
		renationalization	2011
South Korea	Public PAYG-DB	Parametric reform	2000/2009
Brazil	Public PAYG-DB social pensions	Parametric reform	1998/99, 2005
India	NPF	Parametric reform	2004
China	Public PAYG-DB (enterprise-based)	Privatization & multi-pillar system	1997
		social pensions	2009/10
South Africa	NPF Tax-financed social pension	Semi-structural reform	1996
Bolivia	Public PAYG-DB	Privatization & multi-pillar system	1996
		Universal social pension	1997/2007
		renationalization	2010
Argentina	Public PAYG-DB social pensions	Privatization & multi-pillar system	1994
		renationalization	2008
		Extension of non- and semi-contributory pensions	2004–8
Chile	Public PAYG-DB social pensions	Privatization & multi-pillar system	1981
		Basic solidarity pension	2008
MENA Region	Public PAYG-DB	Parametric reform	Various

Source: Author.

covering a large proportion of the elderly population, although the outreach of contributory pension insurance remained limited.

The Chilean pension model and the transnational campaign for privatization

Chile was the first country in the world to implement a mandatory, decentralized and privately managed system of individual pension accounts, which previously had only existed in form of voluntary private pension insurance plans. The 1981 reform under dictator Pinochet substituted the former public defined benefit PAYG programme with a market system of competing pension fund administrators (Administradoras de Fondos de Pensiones – AFP), whereby the insured opened a private account and paid a defined contribution of their monthly wages, which after retirement financed a pension benefit calculated on the basis of accumulated savings (contributions plus investment returns minus administration and insurance fees), life expectancy and market interest rates.

The Chilean pension reform became a model worldwide after the country's return to democracy and in line with the hegemony of neoliberal policy approaches in the 1990s. The World Bank actively supported pension privatization through the promotion of the multi-pillar pension model in academic and policy debates, technical cooperation and financial resources, with other transnational actors such as the United States Agency for International Development (USAID), Asian Development Bank (ADB), Inter-American Development Bank (IADB) and the Organisation for Economic Co-operation and Development (OECD) also playing a significant role in *The Transnational Campaign for Social Security Reform* (Orenstein 2008). Latin America became a laboratory for pension reform, with a number of transition countries following in the late 1990s and countries across the globe following in the 2000s (see Table 1.1).

Pension privatization was justified on the grounds of efficiency and accumulation, as part of structural adjustment and greater reliance on markets.[22] It was argued that these reforms would lead not only to greater personal savings and reduced fiscal burdens in the future, but would also contribute to the establishment of stock markets and to a deepening of the financial sector, which was considered necessary for efficiently allocating capital and promoting growth, as mentioned in the previous section (World Bank 1994, 2001).

It was further argued that social sector reforms that followed market principles would support rather than counteract liberalization and adjustment policies in the economic sectors and create positive growth synergies. More radical reforms and the incentive for the insured to gain private ownership of their pension savings and protection against political interference were thought to enable policymakers to overcome persistent reform barriers in countries with longer histories of public social insurance schemes, where powerful vested interests virtually prevented "path departure" from what was judged to be an unsustainable and inefficient pension system. From the perspective of the insured, it was suggested that private schemes could offer higher returns on contributions, therefore higher pensions, and minimize the risk that politicians would divert funds through mismanagement and corruption.

As will be shown in the section on pension system evaluation, increased disappointment with privatized pension systems led to revisions in the policy advice offered by international organizations as well as to follow-up reforms and even the renationalization of pension accounts in Argentina, Bolivia and Hungary.

Non-contributory pension models

Non-contributory pensions featured less prominently than the privatization of contributory programmes in international policy debates until the early 2000s when their contribution towards poverty reduction and equality was recognized in discussions about achievement of the MDGs or realization of national social protection floors (see section above). As noted by Hujo and Cook (2012), social pensions have been discussed in relation to multi-pillar pension systems and their reforms and in relation to poverty reduction strategies (for example, as categorical cash benefits for the elderly poor), in particular in countries with limited formal social insurance (HelpAge International 2004). In terms of design, the following options can be identified (see also Holzmann, Robalino and Takayama 2009):

- Tax-financed pension targeted to the elderly poor (means-tested)
- Tax-financed pension universal for all citizens/residents (sometimes pensions tested or subject to personal income tax)
- Social assistance available for the entire population including older persons (means-tested)
- Subsidies for the vulnerable insured in contributory programmes (women, youth, self-employed, unemployed, etc.)

Most countries have social pensions that target the elderly poor, but some countries have implemented non-contributory pension programmes covering all citizens and residents in the country – as in Bolivia, Nepal, Mauritius, New Zealand and Brazil (rural sector) (see Chapter 5 on Brazil and Chapter 9 on Bolivia). As with other social transfers and services, opinions diverge on the pros and cons of targeted versus universal social provisioning (Mkandawire 2005; UNRISD 2010). As Chapters 9 and 10 explore in more detail, there are strong arguments in favour of universal schemes in countries with widespread poverty, weak administrative systems and where there is a need to strengthen social cohesion, a sense of citizenship and social solidarity. On the other hand, international financial institutions (IFIs) tend to favour the introduction of means-tested targeted transfers because they hold that these schemes are less costly and more effective in terms of poverty reduction (Coady, Grosh and Hoddinott 2004).

A further variant of non-contributory pension programmes are tax-financed *programmes for civil servants*. As explained in Chapter 4 on Korea, the justification for tax-financing the pensions of public sector employees, who are usually considered a privileged group, is different from non-contributory pensions that are designed to provide a basic income for all or to prevent old-age poverty among vulnerable groups. The more generous treatment of civil servants in pension policy is usually meant to compensate for lower salaries and limited rights regarding wage bargaining compared to private sector workers, with the final goal to attract qualified and loyal long-term staff for public bureaucracies (Kwon in this volume). Palacios and Whitehouse (2006: 7) summarize the rationale to set up separate pension systems for government workers as (a) securing the independence of civil servants, (b) making a career in public service attractive, (c) shifting the costs of remunerating public servants into the future, and (d) retiring older civil servants in a politically and socially acceptable way. As the chapters on Korea, Brazil, India and South Africa show, the increasing fiscal burden associated with civil service pension schemes as well as inequities created by these parallel systems have resulted in various reform initiatives which aim to reduce fiscal costs and align these schemes with national pension schemes. The case studies show that these reform are politically challenging, as they involve discussions about the role of the public sector that go beyond the issue of old-age protection. However, several governments have succeeded in overcoming reform resistance, which should be beneficial for both fiscal and equity reasons.

Evaluating Pension Reform: Economic, Social and Political Dimensions

The different pension models and reform options presented above can be evaluated both at a theoretical-conceptual and an empirical level. The studies collected in this volume evaluate pension reforms with regard to their expected and actual impact on economic and social outcomes, without engaging in detail with the complex paradigmatic debates about ideal models and the effects of specific design parameters. They also explain the political logic behind certain reforms and measures (or their absence), in particular when no apparent rational economic or social logic associated with technically first-best scenarios can be identified.

In this section we give an overview of the normative criteria used in the evaluation of pension systems and reforms as well as some general observations on structural reforms, in particular regarding the preconditions and impact of economic crises and market volatility. These criteria will be taken up in several chapters in this volume to evaluate the economic, social and political impact of reforms.

One general observation is that pension programmes based on market principles are said to increase efficiency and actuarial fairness (if market failures are excluded), whereas pension programmes based on principles of redistribution and social solidarity are associated with increases in social fairness, risk-pooling and income security (if state failures are excluded). These basic relationships are illustrated in Table 1.3.

In reality, outcomes can be different. Some public schemes are based on benefit formulae that guarantee actuarial balance (NDC, point system) while allocating tax subsidies for redistributive elements; and some private schemes are highly inefficient and costly because of uncompetitive markets and exposure to market risks. Furthermore, access rules to pension benefits tend to be more important in terms of equity than

Table 1.3 Ideal types of pension models and fairness

Social fairness	Pension model	Actuarial fairness
↓	Private individually fully funded DC *Market-type*	↑
↓	Public contribution-financed NDC *Bismarck-type*	↑
↓	Public contribution-financed fully funded (NPF), DC or DB *Bismarck-type*	↑
↓	Public contribution-financed partially funded, DB *Bismarck-type*	↑
↓	Public contribution-financed PAYG-DB *Bismarck-type*	↑
↓	Public tax-financed DB *Beveridge-type*	↑

Notes: Social fairness: redistribution towards disadvantaged or vulnerable groups, redistribution to honour non-contributory periods with value for society (education, maternity, care work, military service, etc.).
Actuarial fairness: close contribution–benefit link, taking into account life expectancy.
Source: Author.

the financing method, as social pensions in Brazil and Argentina demonstrate – these are mainly funded through the social security budget, and not through general taxation.[23] Once the objectives of a pension programme are defined, the performance of social insurance and social protection programmes depends, not unlike macroeconomic policies, more on the quality of public and private institutions than on the chosen model.

However, privatizing pension insurance raises a number of issues both from a social and economic point of view, even if we ignore implementation or governance problems. First, the preconditions for implementing private schemes are demanding.[24] Funded schemes are risky when financial and banking systems are not well developed and regulated, and they are especially vulnerable during financial and economic crises, as the latest global financial crisis forcefully demonstrated: Chile lost almost 12 per cent of GDP in accumulated pension assets between 2007 and 2008 (AIOS 2008) and the real rate of return over 2008–10 was still negative at –0.8 per cent;[25] OECD countries lost up to 30 per cent in 2008, but had recovered US$3 trillion from the 3.4 trillion loss in market value experienced in 2008 by mid-2011 (OECD 2011).

The second issue of concern regards the actual investment of pension funds. In the case of transition from a public PAYG system, the majority of funds are invested in public debt in order to finance transition costs. Transition costs occur once contributors start paying into individual accounts and the public scheme is left without revenues but still has to pay current pensions and compensate the insured, who switched to the private scheme, for their past contributions. In order for pension reform to remain cost-efficient – one of the key objectives of pension privatization – governments usually have to cut benefits and entitlements, potentially undermining social goals such as coverage, gender equality, income security and poverty reduction. Policymakers also frequently resort to payment of below-market interest rates on government bonds, which are held by pension funds, in order to reduce transition costs or access a cheap source of finance (see Chapters 8, 9 and 10 on South Africa, Bolivia and Argentina). The insured not only bear these costs as taxpayers and future beneficiaries, but they also shoulder high administrative costs associated with decentralized funds (in Latin America, these amounted to an average of 9 per cent of collected contributions in 2009: AIOS 2008), considerably lowering net rates of return on their pension savings.

In Chile, transition costs were spread over a 30-year period. They were as high as 4.7 per cent of GDP in 1984 and declined gradually until they reached approximately 1.5 per cent in 2010 (Titelman et al. 2009). To close the rising coverage gap caused by privatization, Chile introduced a non-contributory basic pension and subsidies to low-income groups in 2008, at an estimated cost of around 1 per cent of GDP annually (Titelman et al. 2009; see also Chapter 10, this volume). In the case of Argentina, the transition costs associated with the shift towards private pension accounts in 1994 caused a fiscal deficit that prompted creditors to withdraw their support in 2001, leading to sovereign debt default and the worst crisis in the history of the country (Hujo 2004; Goldberg and Lo Vuolo 2006). After implementing several small reform measures to strengthen the public pillar of the Argentine pension system, the government finally opted to renationalize the system in 2008 (see Chapter 10). Bolivia, too, opted to renationalize its funded pension system, which produced fiscal costs of around 5 per cent of GDP per annum in 2010 (see Chapter 9). These examples challenge the assumption that private ownership of pension accounts reduces the risk of political interference.

The evidence presented suggests that any evaluation of pension schemes has to answer two basic questions:

- Is the conceptual design of the programme or the reform in line with the objectives and norms pension insurance is supposed to comply with in a given country?
- Are problems or failures in realizing objectives or complying with principles associated with design problems, implementation problems or changing context variables?

In addition to these basic questions of policy design, implementation and adaptation to changing contexts, pension experts and international institutions have established social security principles against which performance of pension schemes can be measured (Table 1.4).

The criteria listed in Table 1.4 reflect the ambitious goals of ideal models of old-age protection, whereas in reality the goals of adequacy and equity and the ILO minimum standards as set out in Convention No. 102 often conflict with the economic goals of affordability and sustainability. Furthermore, political economy reasons such as the influence of powerful groups and the sequential evolution of pension schemes often lead to stratified systems, undermining objectives such as equity, equal treatment, unity and solidarity (see Mesa-Lago 1978, 2012 and the contributions in this volume).

Nonetheless, beyond the developed world, pension systems have been important instruments in reducing poverty amongst the elderly

Table 1.4 Evaluation criteria for pension systems

World Bank	**Mesa-Lago**	**ILO/ISSA**
Primary criteria		***Convention No. 10, 128***
Adequacy (poverty prevention and consumption smoothing)	Social dialogue	Guarantee of defined benefits
Affordability (financing capacity of individuals and society)	Universal coverage	Participation of employers and workers in the administration of the schemes
Sustainability (financially sound and can be maintained in medium to long term)	Benefit adequacy	General responsibility of the state for the due provision of the benefits and the proper administration of the institutions
Equitability (income distribution from rich to poor, not taxing non-insured)	Equal treatment	Collective financing of the benefits by way of insurance contributions or taxation
Predictability (law, indexation, insurance against longevity)	Social solidarity	Social security as a human right
Robustness (against major economic, demo-graphic and political shocks)	Gender equity	Social justice
Secondary Criteria	Financial sustainability	***Other criteria***
Growth contribution	Efficiency	Mandatory participation
Minimize labour market distortion	Participation	Financial sustainability
Contribution to savings mobilization	Supervision	Gender equality
Contribution to financial market development		

Source: Author's elaboration based on Holzmann et al. 2008 and Mesa-Lago 2012, ILO conventions (http://www.ilo.org/global/standards/lang--en/index.htm)

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and in contributing to income security in old age. Old-age poverty in Latin America has been reduced by between 25 and 93 per cent through social transfers (see Table 1.5). Non-contributory social pensions have been especially effective in terms of poverty reduction, equity and redistribution with relatively low costs, though they often fare less well in terms of adequacy, universal coverage and financial sustainability. It is therefore crucial to design non-contributory pensions as part of a broader protection scheme for old age, to anchor that scheme in law and sustainable financing instruments, and to strive for universal coverage (Hujo and Cook 2012; ILO 2012).

Despite its positive impact on poverty reduction, spending on social security, together with tertiary education, has been identified as the most regressive category in public social spending – as Table 1.6 demonstrates for Latin America. This is due to the fact that despite insufficient coverage rates for difficult-to-cover groups (Mesa-Lago 2009) the public sector subsidizes formal pension insurance with general revenues, distributing public money from those excluded from protection to those covered by insurance, a mechanism that also operates in several Asian and African countries, as the case studies in this volume demonstrate.

This leads us to the final dimension for evaluating pension systems and reform – the impact on politics. As mentioned before, more than

Table 1.5 Social transfers and old-age poverty in Latin America

	Poverty rate of adults aged 65 and older (%)		
	Pre-transfers	**Post-transfers**	**Reduction in poverty (%)**
Argentina	64.5	17.1	72.6
Brazil	67.8	16.9	75.1
Chile	52.8	15.0	71.6
Colombia	64.2	47.0	26.8
Costa Rica	52.7	28.7	45.5
Mexico	70.5	53.2	24.5
Uruguay	67.0	4.9	92.7
Average	62.8	26.1	58.4
Median	64.5	17.1	71.6

Note: Estimations are based on household surveys conducted in 1997, except for Chile and Brazil, where they refer to 1996.
Source: UNRISD elaboration based on Tokman 2006, with data from Uthoff and Ruedi 2005.

Table 1.6 Distribution of benefits from public social spending to the richest and poorest quintiles in Latin America (per cent)

	Poorest quintile	Richest quintile
Education	20.2	20.4
Primary	29.0	7.9
Secondary	13.2	18.3
Tertiary	1.9	52.1
Health	20.6	17.6
Social security	5.6	51.2
Total social spending	15.0	30.4

Notes: Numbers represent unweighted averages. Country coverage varies by category. For total spending, total education, health and social security spending, the number of countries covered is 8, 13, 14 and 9 respectively.
Source: Clements et al. 2007.

any other social programme pension systems are constructed for the long term, which is the reason why they usually reflect a broad political consensus on the basic policy parameters. The credibility, transparency and accountability of decision makers and administrators of pension schemes as well as the predictability and robustness of schemes are crucial for encouraging employers, employees and the self-employed to pay contributions and respect regulations. The perceived fairness of the system as well as positive rates of return on contribution payments (both in PAYG and funded schemes) further contribute to its acceptance and are likely to increase compliance. The case studies in this volume demonstrate how social dialogue and the participation of citizens and interest groups in reform processes as well as credible and accountable institutions are crucial for making pension policy part of a democratic social contract between society and state.

Overview

The book is divided into three main parts:

Part I, "Political Economy Issues in Pension Reform" includes case studies on Poland and Hungary, the Middle East and the Republic of Korea.

Part II, "Pension Systems and Reforms in the BRICS", covers case studies on Brazil, India, China and South Africa.

Part III, "Bringing the State Back In", looks at recent reforms in Bolivia, Chile and Argentina, three countries that moved towards greater inclusiveness in old-age protection.

Part I: Political Economy Issues in Pension Reform

Chapter 2 on pension reform in *Central and Eastern Europe* by Katharina Müller focuses specifically on the political economy of pension privatization in Hungary and Poland. It shows how these countries carried out a paradigm shift, deliberately breaking with social security traditions and with the pension policy of peer nations in the region. Macroeconomic considerations are found to have played a prominent role in these radical pension reforms through three main channels. First, in the context of the transition of these countries to a market-led approach to economic policy, pension privatization was presented as an advantageous solution capable of responding to the diverse concerns of downsizing the public establishment, accelerating growth and strengthening immature financial markets. Second, the analysis of reform discourse in both countries uncovers striking similarities in macroeconomic reasoning, which in turn reveal the influence of an international epistemic community of "new pension orthodoxy", exemplified by the World Bank's position. Third, in both countries the appearance of observable emergencies such as a crisis of the pension system and high fiscal debt produced shifts in the constellations of internal and external actors, potentially influencing the pension reform arena and empowering the constituency of pension privatization to carry out a radical change that would have otherwise been highly unpopular.

Chapter 3 by Markus Loewe focuses on selected countries in the *Middle East and North Africa* and illustrates the severe limitations of public pension schemes in the region in terms of equity, efficiency and financial sustainability. In the face of these deficits, the majority of countries in the region have been reluctant to implement reforms, let alone substantial restructuring of their pension schemes. The Palestinian Authority, Lebanon and Morocco have considered systemic reforms, but none has carried them out. The most substantial reform packages have concentrated on limiting regressive redistribution and on extending both the legal and the effective coverage of pension schemes, thus contributing to social goals. In this sense, one of the main findings of the research is that social and political concerns play a more important role than economic objectives in shaping pension reform in the region. Indeed, despite their underdeveloped private sectors, most of the countries are perfectly able to cover the deficits of their pension schemes and the lack of capital from national saving, thanks to the rents from oil and gas. The political stability of some rulers may depend much more on social achievements and hence on the extension and generosity of social programmes, especially in the case of republican governments. The path followed so far by certain countries (Algeria, Bahrain, Egypt, Libya and Tunisia) seems to indicate that parametric reforms are politically less controversial than structural reforms and, indeed, practicable in a near future.

Chapter 4 on the *Republic of Korea* by Huck-ju Kwon examines the policy processes behind the Civil Service Pension Programme reform in the country, and seeks to determine whether the reforms implemented will bring about fundamental changes to the overall public pension system in the country. The Civil Service Pension Programme was created within the framework of the developmental state, which has played a leading role in the Republic of Korea's economic development. Since the country has undergone structural changes not only in terms of democratization but also in terms of the transformation of the economy and demographics, there has been increasing pressure on the reform of the welfare system in general and, in particular, on the Civil Service Pension Programme. The research shows that the recent reform of the programme is likely to consolidate its financing through an increase in the level of contributions and a reduction of the level of benefits. The government will still be required to provide financing in order to fill the deficit, although this will be smaller than expected under the previous system. Overall, the structure of the public pension system is likely to remain the same as before, maintaining the separation between the National Pension Programme and the Civil Service Pension Programme. The second main finding of the research is that, despite continuity in the structure and features of the pension system, there has been a clear change in the policy process behind the reform. The new decision-making pattern is more deliberative and geared toward consensus building than previous reforms. Through the Committee for the Reform of the Civil Service Pension Programme that was established by the government as an advisory body, different social actors were able to represent their interests in the discussions and to advance proposals, resulting in policy compromise with consensus.

Part II: Pension Systems and Reforms in the BRICS

Chapter 5 on *Brazil* by Marcelo Abi-Ramia Caetano sets out to disentangle the complexity of the country's pension system, examining the contradictions and trade-offs between the fiscal costs of the social security regime and the system's impact in terms of inequality and poverty reduction. Regarding the latter, transfers from pensions are found to reduce the incidence of poverty among the elderly by 60 per cent. The actuarial internal rate of return indicates that the pension system redistributes from urban to rural, men to women and high income to low income; however, the overall effect of the system is that of a massive redistribution of income to the pension scheme of relatively well-off public servants. Social security reform in Brazil is found to be highly determined by fiscal concerns and, to a lesser extent, by equity perspectives. Indeed, the threat of extremely high transition costs, among other reasons, prevented Brazil from switching from a PAYG to a funded scheme, as happened in other Latin American countries. The system has gone through various legislated reforms, mainly consisting of parametric changes. Despite these efforts, the chapter argues that the country still faces important challenges such as expanding coverage, harmonizing the pension schemes for private and public sector workers, and dealing with population ageing.

In the case of *India,* which is analysed by Mukul G. Asher and Azad Singh Bali in Chapter 6, the authors posit that the country's complex social security system, comprising seven components, requires important reforms if it is to deliver economic security to elderly people and to contribute to sustained economic development. According to the research, the reform is driven by three main processes: demographic transition, the need for fiscal consolidation and the alignment of India's social security system with its current economic paradigm that rebalances the public–private sector mix in favour of the latter. The chapter sets out to analyse constraints imposed by country-specific characteristics such as high levels of informality and high rates of internal migration, suggesting non-contributory pensions and portability of contributory pensions as promising ways forward. It further analyses the two main pension programmes, the provident fund for private sector employees and the recently reformed pension system for civil servants. While the authors identify a range of reform challenges for the private sector provident fund scheme, the new DC pension programme for public servants (which replaces the former tax-financed scheme for new labour market entrants and voluntary members) reduces the future fiscal costs of the Indian pension system. One of the main messages of the chapter is that social security reform should not be undertaken alone if it is to be effective: it will also require complementary reforms in labour markets, fiscal policies, delivery of social assistance programmes, governance, and financial and capital markets.

Chapter 7 on *China* by Lianquan Fang describes how over the past two decades the country has undertaken an overhaul of its social security system, which was one of the essential elements in the market-oriented economic reform and social transition process starting in the late 1970s. In the early 1990s, pension reform was primarily confined to urban workers, particularly to those employed in state-owned enterprises (SOEs), leaving a large number of workers in the informal sector and rural areas outside the social protection system. In 2006, the central government for the first time announced its goal to achieve full coverage for old-age protection in urban and rural areas by 2020. Following on from this, several public pension pilot programmes have been initiated in recent years, including a pension reform pilot for Public Service Units in 2008, a new rural pension plan in 2009 and an urban residents' pension plan in 2010. As a result, China has constructed a multi-plan framework for old-age protection which has the potential to include all types of groups constituting the labour force. The chapter analyses the fragmented Chinese pension system in terms of coverage, economic costs and equity. To overcome observed limitations, the author proposes a more radical reform that would aim to unify the different programmes into a universal old-age protection system based on three pillars: a social pension for the needy, a contributory pension based on a notional defined contribution system, and voluntary savings.

Chapter 8 by Fred Hendricks on the conversion of *South Africa*'s pension system for public employees from a partially funded system to a fully funded scheme shows how the adoption of a fully funded pension scheme led to a dramatic increase in national debt, as the public servants of the previous apartheid regime consciously indebted the state in order to safeguard their own pensions in retirement. The contributions of current employees were directed into the pension fund while current pensions had to be financed out of the budget, with detrimental implications for social investment, especially in the areas of education, health and welfare. This case shows how policy choices with contradictory effects have the power to profoundly shape the overall economic prospects of a country. In South Africa, while a progressive agenda of social spending and poverty reduction through non-contributory public pensions has benefited many poverty-stricken black citizens, the fully funded system of contributory pensions for public sector workers has entrenched the deals made by senior public officials of the apartheid government and enriched a very small group of black entrepreneurs involved in the centralized asset management of public pension funds. Thus, the South African case highlights the tensions between the goals of economic empowerment and poverty reduction, and the necessity for governments to ensure that social policies encourage economic growth while simultaneously maintaining the social imperative of redistribution.

Part III: Bringing the State Back In

Chapter 9 on *Bolivia* by Peter Lloyd-Sherlock and Kepa Artaraz examines the effectiveness of two different models of pension provision as tools for sustainable income security in later life. Historically, pension provision in developing countries was usually provided by Bismarckian occupation-specific funds which mainly served richer population groups and generated large financial deficits. Since the 1980s, many developing countries have replaced these funds with privately managed individual pension plans. At the same time, several countries have established large, non-contributory social pension schemes, as part of wider programmes of poverty reduction and social protection. In the case of Bolivia, both these new models have been introduced, leading the authors to compare their effectiveness, as well as to consider the extent to which they combine into a single complementary programme of old-age security for all. The chapter compares key features of each model and then assesses their impact in Bolivia. It concludes that the privatized contributory scheme has abjectly failed as a vehicle of welfare provision, whereas the social pension has largely been a success. This assessment explains the most recent pension reform of the Morales government, the renationalization of the private pension funds in December 2010.

Chapter 10 on *Argentina and Chile* by Katja Hujo and Mariana Rulli argues that reforms implemented in 2008, the renationalization of the private pension funds in Argentina and the introduction of a social pension in Chile, have moved both countries towards 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 people not eligible for other pensions, aged 65 and older and who have resided in the country for the last 20 years. Benefit coverage has been extended gradually to 60 per cent of the poorest elderly by 2012, with an estimated 1.3 million beneficiaries and a monthly benefit of US$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 PAYG system in 1994 as part of a neoliberal reform agenda, the renationalization of private pension funds was implemented by the Kirchner administration 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 that led to a significant expansion of coverage of non- and semi-contributory pension benefits. The reform was criticized as a top-down decision that 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.

The *Conclusion* by Katja Hujo summarizes the key findings of the case studies. These fall into three categories (a) Reform Drivers and the Political Economy of Pension Reform, (b) The Impact of Reforms, and (c) Implications for Research and Policy.

Notes

1. Evidence for this is presented later in this introduction: see Table 1.5.
2. The CIS is a regional organization composed of former Soviet Republics.
3. HelpAge estimated the number of older people living on less than US$1 per day at 100 million in 2004 (Helpage International 2004).
4. See the special double issue (Vol. 66, No. 3–4, July–December 2013) of the *International Social Security Review* on 'The role of national social protection floors in extending social security to all' for a comprehensive analysis of this initiative, for a summary the introduction by Hagemejer and McKinnon 2013.

5. ECLAC 2006, ESCAP 2011, and World Bank 2012b.
6. To give an example from Europe: Petersen and Petersen 2009b describe the Danish People's Pension as 'an integral part of our national identity' (p. 19). See also the welfare regime classification by Esping-Andersen 1990.
7. Goldberg and Lo Vuolo 2006 highlight the relationship between pension schemes, models of citizenship and regimes of accumulation. Ebbinghaus and Whiteside 2012 discuss the increasingly blurred distinction between public and private pension models in post-crisis Europe. A new ESCWA report discusses the changing welfare mix in the Arab region, see ESCWA 2013.
8. This research objective required an interdisciplinary approach combining insights from the often highly technical pension literature, welfare regime and social policy literature, development economics and the political economy of policy reform.
9. In UNRISD terminology, social policy is defined as transformative through its impact on economic production, social reproduction, redistribution and social protection. Progressive social change requires further to anchor social policies in human rights and democratic governance, see UNRISD 2006, 2010.
10. This is done explicitly if the benefit formula compensates for reproductive tasks such as child care and in case of non-contributory benefits; any pension helps to reduce the burden in terms of finance and care work for sustaining the livelihoods of the elderly, a burden which is traditionally borne by the working age family members, most often women.
11. This usually does not hold true in the case of transitions from PAYG to FF schemes, because of fiscal costs associated with the systemic change; what does change, however, is the structure of debt (from implicit to explicit, with implications for rates of return) and the type of investments that are financed through pension savings, although this depends rather on investment rules set by law and not on whether the investor is public or private (in theory, a state could mandate a 100 per cent investment of privately managed funds in government bonds).
12. Some countries have introduced personal savings accounts for the contingency of unemployment, the prominent example again being Chile.
13. The academic debate on pension systems and their impact on national savings, as well as the impact of savings on investment and growth, is complex and contested; see for example Feldstein 1974, 1997, Munnell 1974, Beattie and McGillivray 1995, Auerbach and Kotlikoff 1998, Reisen 2000, Orszag and Stiglitz 2001 and Hujo 2004. It is now widely accepted that reform-related net savings become negative over several decades in case of a transition from a PAYG to a funded scheme, because new government debt or higher taxation is necessary to cover the transition costs occurring when workers start to save for themselves and stop financing current pensioners. It has been estimated that in the case of Chile, 40 years are necessary to produce a cumulative positive national saving's balance (Arenas de Mesa 1999, cited in Mesa-Lago 2004), see also Chapter 10 in this volume.
14. Germany 1889, Denmark 1891, France 1895, Italy 1898, Belgium 1900, Britain and Ireland 1908. On the history of welfare state development see for example Wilensky 1958, Flora 1986, Skocpol and Amenta 1986, Esping-Andersen 1990 and Gough 2005.

15. Müller 2003, Haggard and Kaufman 2008, ILO 2010.
16. Goldberg and Lo Vuolo 2006: 16 suggest the following motivations for pension reforms: economic-financial, administrative-institutional and ideological-political.
17. Buchanan 1983, Pierson 1996, Petersen and Petersen 2009a.
18. Kay 1999, Madrid 2002, Müller 2003, Hujo et al. 2004, Goldberg and Lo Vuolo 2006, Brooks 2009 and Casey 2011.
19. Defined benefit means that based on a specific formula, a specific replacement rate with regard to previous wage or salary levels is guaranteed (and if necessary, other variables are adjusted to achieve this), whereas in defined contribution systems, only the contribution rate is fixed, whereas benefits are determined by variables such as accumulated savings, rates of return, life expectancy, etc.
20. In 1994, Sweden substituted its former PAYG pension system with a earnings-related NDC-PAYG scheme complemented by private IFF pensions. The NDC system emulates the principles of a market-based defined-contribution insurance scheme without pre-funding. Rates of return depend on a formula reflecting growth of the contribution wage sum rather than the financial market returns. On the NDC model see Holzmann and Palmer 2006, on the Swedish reform Könberg, Palmer and Sundén 2006.
21. See Goldberg and Lo Vuolo 2006 for a critical account of the use of the term model.
22. World Bank 1994, Charlton and McKinnon 2001, Hujo 2004, Arenas de Mesa and Mesa-Lago 2006.
23. The author owes this observation to Camila Arza. The fact that public funding (both taxation and social insurance contributions) tends to increase social fairness still holds.
24. Vittas 2000, Impavido, Musalem and Vittas 2002 and Rudolph and Rocha 2009.
25. The figures for Nigeria are –5.7, Bulgaria –9.6 and Peru –2.9; OECD 2011.

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