

Introduction

The biennial *OECD Pensions at a Glance* series was launched in 2005 for OECD countries and subsequently expanded in 2011 to include the remaining G20 countries. Following the launch of *Pensions at a Glance Asia-Pacific* in 2009, this new regional publication covers pensions in Latin America and the Caribbean; it is a joint product by the Inter-American Development Bank, the Organisation for Economic Co-operation and Development and the World Bank.

The main objective of *OECD Pensions at a Glance* is to provide a set of indicators of pension system design using a standard methodology that allows for comparison. These indicators are not intended to show which design is superior but rather, to allow for cross-country comparisons. As in previous volumes in the series, this volume includes a special analytical chapter on a subject considered to be a high priority for policy makers in the region. In this issue, the coverage and adequacy of Latin American pension systems are analysed.

Starting in the early 1990s, a series of pension reforms were introduced throughout Latin America, altering the fundamental design of many pension systems in the region. In particular to address the long-term financial sustainability in the context of population ageing, a number of countries moved from defined-benefit pay-as-you-go public pension systems to systems relying heavily on privately-managed individual accounts.

While the financial sustainability of pension systems may have improved in many countries, there was, however, little or no progress on a second key measure of performance, namely coverage. The challenge of increasing coverage, often through non-contributory pensions, has become the issue most discussed in the region today.*

Coverage, defined both as the proportion of workers participating in pension schemes and the proportion of the elderly receiving some kind of pension income, continues to be the most important pension challenge in the region. In the two decades that followed the pension reforms in Latin America, the share of workers contributing to a pension system of any kind barely changed in most countries, leading to a growing emphasis on policies that would address the stubborn coverage gap. The general issue of coverage and more specifically contribution density is covered in Chapter 1 of this report.

In addition to sustainability and coverage, the third key measure of a pension system is *adequacy* and this report aims to provide a set of comparable indicators across the region for the first time. This first edition of *Pensions at a Glance: Latin America and the Caribbean* extends the comparative analysis of adequacy and benefit design that has largely been restricted to the higher income OECD countries until now.

* See for example, Rofman, R., I. Apella and E. Vezza (2013), “Mas Allá de las Pensiones Contributivas: Catorce Experiencias en América Latina”, World Bank, Washington, DC; and Bosch, M., A. Melguizo and C. Pagés (2013), “Better Pensions, Better Jobs: Towards Universal Coverage in Latin America and the Caribbean”, Inter-American Development Bank, Washington, DC.

These comparisons are difficult without a standardised methodology and presenting the information across countries in an easily understandable manner is a challenge. The collaboration of the three institutions responsible for this study has made it possible to expand the set of countries where these comparisons can be made. To this end, Chapter 2 provides descriptive data on the underlying demographic conditions, particularly those relevant for pension policy. This descriptive analysis is followed by a systematic comparison of system design across countries using the standard OECD *Pensions at a Glance* typology. Chapter 3 provides some key indicators of adequacy including gross and net replacement rates and pension wealth for men and women at different income levels.

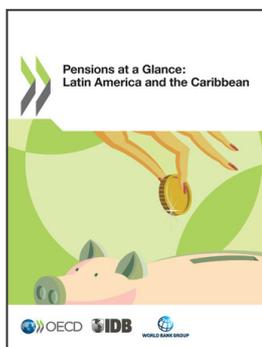
Chapter 4 provides the profiles of each country's pension system in 26 Latin American countries in terms of their architecture, rules and parameters. This is the basis for the comparative adequacy indicators. It is also a useful reference for researchers and policymakers interested in specific details about individual countries.

Pensions at a Glance: Latin America and the Caribbean does not advocate any particular kind of pension system or type of reform. The goal is to inform debates on retirement-income systems with data that can be used as a reference point. This positive approach to the analysis of adequacy also recognizes that the benefit design is, to a large extent, a decision that will vary across societies. At the same time, as reform options are discussed in each country, it is important to understand the trade-offs involved.

Through comparisons, countries can learn valuable lessons from other pension systems and their experiences of retirement-income reforms. However, as in all attempts to make valid international comparisons, there are limitations that should be noted. The methodology applied (described in Chapter 3) involves simulating the outcomes for individual workers under certain assumptions about when these individuals begin to work, how long they contribute and the exogenous variables that affect the outcome including wage growth, mortality and interest rates. Pension benefits are projected for workers at different levels of earnings, covering all mandatory sources of retirement income for private-sector workers, including minimum pensions, basic and means-tested schemes, earnings-related programmes and defined contribution schemes. Also included is the impact of the personal income tax and social security contributions on living standards in work and in retirement: all indicators are presented gross and net of taxes and contributions.

The comparison is not of predicted outcomes but rather, the results for similar individuals that are implied by the design of the pension scheme. So, for example, while two countries may have similar, even identical system designs, a significant difference in the patterns of contribution or life expectancy at retirement age would in practice, yield different actual outcomes. Recognising the particular importance of this limitation for Latin America where there is evidence of low contribution density, especially at the lower end of the income scales, Chapter 1 of the report extends the usual micro-level analysis and reports on the sensitivity of the results. The framework is flexible to changing assumptions, the impact of policy reforms and economic developments on pension entitlements can be simulated.

Crucially, the indicators derived from the analysis refer to someone entering the workforce today. It is prospective in this sense with the advantage that this approach takes into account reforms that have already taken place. It does not, however, allow for comparisons of those already retired based on earlier rules. This highlights the fact that pension schemes do change over time and the indicators presented here will need to be updated in future volumes.



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