The Challenge of Public Pension Reform

Baoping Shang
Fiscal Affairs Department
International Monetary Fund
May 4, 2012

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Plan of Presentation

- Trends and drivers of public pension spending
- Projected spending increases and risks to projections
- Pension reform options
- Pension reforms in the Caribbean
After rapid increases over 1970-1990, reforms have slowed spending growth in advanced economies.
Higher replacement rates and aging have been the main drivers in advanced economies.
Large increases in pension spending in emerging economies, but from a low level outside Europe

Evolution of Public Pension Expenditures in Emerging Economies, 1990–2010
(Percent of GDP)
Again, higher replacement rates and aging are the main drivers

Evolution of Public Pension Expenditures in Emerging Economies, 1990–2010
(Percent of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1990-2010 (Latin America)</th>
<th>1990-2010 (Emerging Europe)</th>
<th>1990-2010 (Other Emerging)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aging</td>
<td>1.4</td>
<td>1.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Eligibility</td>
<td>-0.7</td>
<td>-1.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Replacement rate</td>
<td>0.9</td>
<td>1.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Labor force</td>
<td>-0.5</td>
<td>0.7</td>
<td>0.0</td>
</tr>
<tr>
<td>participation</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The variation in spending reflects differences in aging, system generosity, and coverage rates.
Spending pressures will intensify in many countries

Increase in Pension Spending, 2010–2030
(Percent of GDP)

Advanced Economies

Emerging Economies

Average=1.2

Average=1.0
Enacted reforms are expected to help contain impact of population aging on spending

Evolution of Public Pension Expenditures, 2010–2030
(Percent of GDP)
The challenge for the emerging economies becomes more pronounced after 2030

Evolution of Public Pension Expenditures, 2010–2050

<table>
<thead>
<tr>
<th>Period</th>
<th>Advanced</th>
<th>Emerging</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-2030</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>2030-2050</td>
<td>1.4</td>
<td>1.0</td>
</tr>
<tr>
<td>2010-2030</td>
<td>1.7</td>
<td>2.0</td>
</tr>
<tr>
<td>2030-2050</td>
<td>29.1</td>
<td>26.9</td>
</tr>
</tbody>
</table>

Percent of GDP

Percent of 2010 GDP
Pension coverage needs to be extended

Pension Coverage in Emerging Economies
(Pensioners to Population Above Retirement Age)

Asia
- Philippines
- Thailand
- Indonesia
- India
- Pakistan
- China
- Malaysia
- Average

Latin America
- Mexico
- Chile
- Argentina
- Brazil
- Average

Middle East and Africa
- Jordan
- Egypt
- Saudi Arabia
- South Africa
- Average

Eastern Europe
- Hungary
- Poland
- Turkey
- Estonia
- Latvia
- Lithuania
- Ukraine
- Bulgaria
- Russia
- Romania
- Average

Average
- 93
Pension coverage needs to be extended

Pension Coverage in Emerging Economies

<table>
<thead>
<tr>
<th>Region</th>
<th>2010 Coverage</th>
<th>Projected 2030 Coverage</th>
<th>Coverage Increase 2010-2030 (percent of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>59</td>
<td>71</td>
<td>0.5</td>
</tr>
<tr>
<td>Emerging Europe</td>
<td>93</td>
<td>97</td>
<td>1.7</td>
</tr>
<tr>
<td>Other Emerging</td>
<td>41</td>
<td>48</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Baseline | Increased Coverage

<table>
<thead>
<tr>
<th>Region</th>
<th>2010 Projected 2030</th>
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</table>
Considerable uncertainty and upside risks to projections

- High old-age dependency ratio
- Low productivity
- Low labor force participation
- Reform reversal
Pension reform options: general considerations

- Pension reform can play a role in fiscal adjustment strategies
- Pension reforms raise important equity issues
- Some pension reforms can have a positive impact on labor supply and growth
Advanced economy reform options

- Gradually raising retirement ages is an attractive option
- Reductions in replacement rates could be considered where they remain high
- Increased payroll contributions could help offset increases in pension spending
Advanced economies: options to stabilize pension spending

Tradeoffs Across Reform Options to Stabilize Spending, 2010–2030
Emerging economy pension reform options

- In emerging Europe, increases in retirement ages and other parametric reforms could be considered

- In other emerging economies, challenge is to expand coverage in a fiscally sustainable manner

- Non-contributory “social pensions” could be considered in countries with low coverage
Pension Coverage in the Caribbean

Old-age pensioners (all ages) as a proportion of the elderly population (%)
Retirement age in the Caribbean

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>60</td>
</tr>
<tr>
<td>Barbados</td>
<td>61</td>
</tr>
<tr>
<td>Belize</td>
<td>62</td>
</tr>
<tr>
<td>Dominica</td>
<td>60</td>
</tr>
<tr>
<td>Grenada</td>
<td>60</td>
</tr>
<tr>
<td>Guyana</td>
<td>60</td>
</tr>
<tr>
<td>Jamaica</td>
<td>65</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>65</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>60</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>60</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>60</td>
</tr>
</tbody>
</table>

Advanced average: 65
Emerging average: 60
Public pension reform in the Caribbean

- Public pension coverage is low in some countries, but the expansion should be done in a fiscally sustainable manner

- Increases in retirement ages and other structure reforms could help improve fiscal sustainability of public pensions, and also generate fiscal space for expanding coverage

- Other reforms include reducing administrative costs and improving the benefit formulas