



The political economy of pensions and pension reform

Andrés Velasco

School of Public Policy

London School of Economics and Political Science

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A little background



- The Chile 2008 pension reform
- Contents:
 - Creation of a “solidarity pillar”
 - More competition in the market of fund administrators
- Process
 - Expert commission
 - Ministers’ committee
 - Long congressional discussion

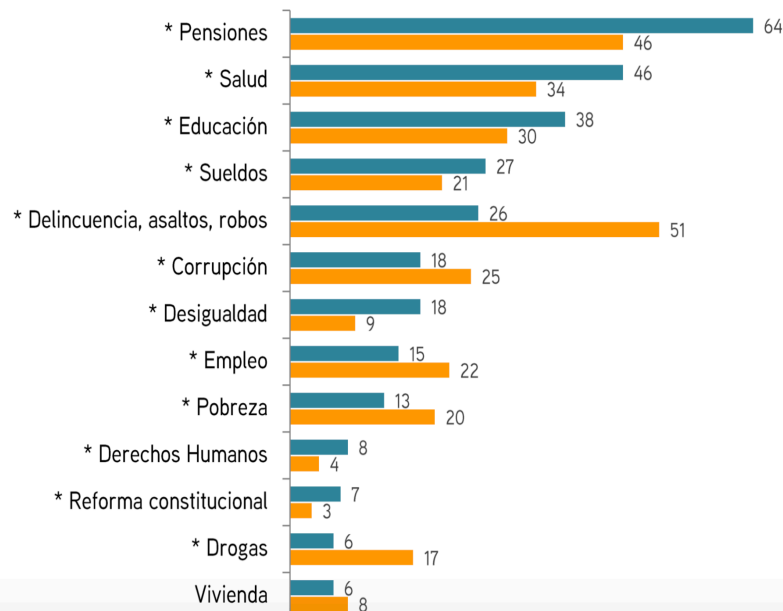
A few useful lessons (and principles)

1. Pensions get all the attention
2. A battle of ideas (or ideologies?)
3. Pension contributions do not come easy
4. Simplicity is king (and queen)
5. There is such a thing as too much choice
6. Legitimacy matters (a great deal)
7. When it comes to pension reform, process is content

Pensions get all the attention

¿Cuáles son los tres problemas a los que debería dedicar el mayor esfuerzo en solucionar el Gobierno?

(Total muestra) (Total menciones: 300%) (Comparación Mayo 2019)



- Polls: pensions must urgent issue
- Paradox: poverty among
 - Elderly: 8%
 - Children: 20%
- Explanations
 - We will all be old one day
 - Retirees vote

A battle of ideas (or ideologies?)



- 2008: the role of banks
 - Should they own AFPs?
 - Provide pension services?
- Hugely controversial
 - Split both coalitions down the middle
 - Occupied much press attention
 - Nearly exhausted congressional demand for conflict
 - Eased passage of other (more difficult, more complex) items

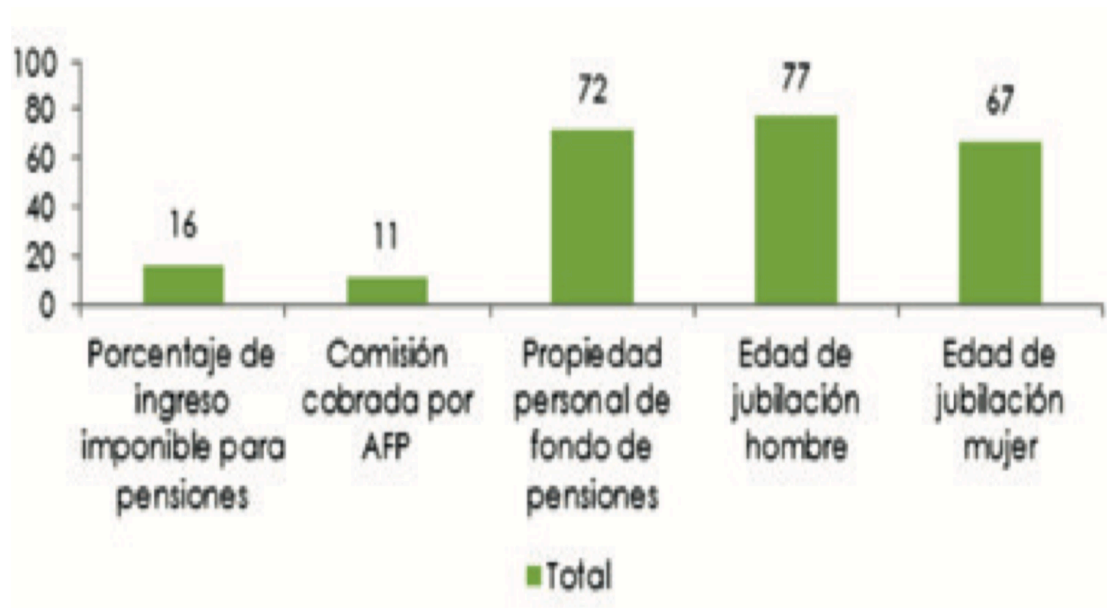
Contributions don't come easy

Density of contributions (by percentile)

p10	0,0%
p25	11,5%
p50	39,8%
p75	69,2%
p90	86,6%

- Most systems built for a labor market that does not exist: with formal, steady, high-paying jobs
- Many people are liquidity constrained, and will not contribute voluntarily
- How to obtain contributions from the self-employed?

Simplicity is king (and queen)



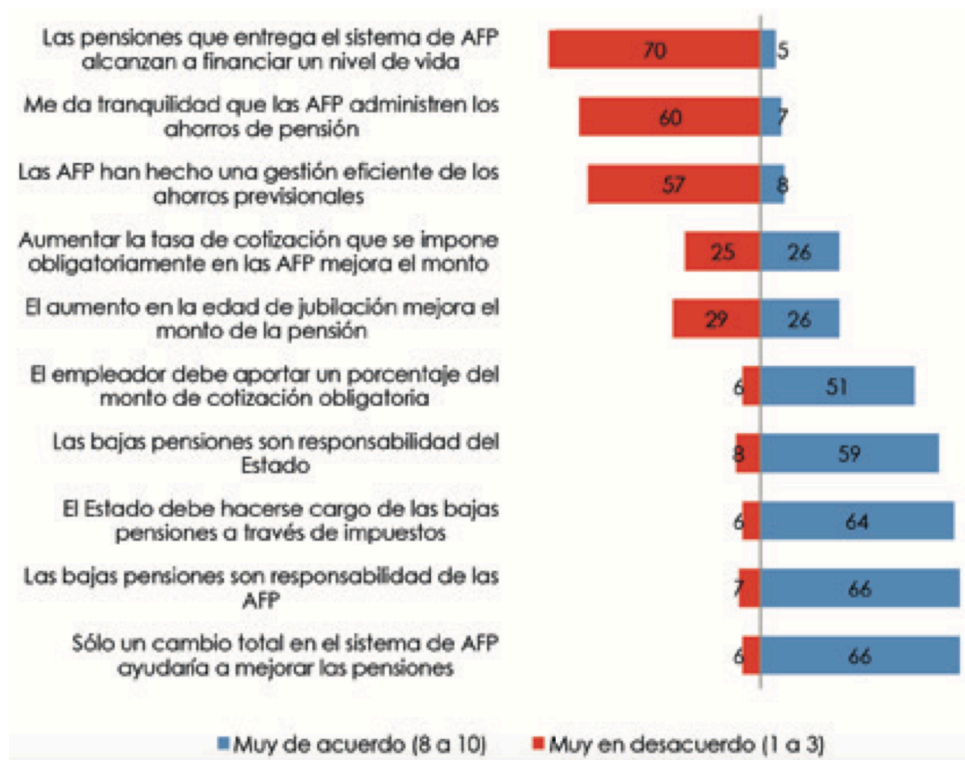
- Most people do not like current pension arrangements
- But few people understand how the system works
- Paradox: policymakers have made it more complicated, not less

There is such a thing as too much choice



- Chile: Multifondos
- Problem: excessive exposure to risk
- Problem: thinking you can beat the market
- Problem: manipulation by outside parties

Legitimacy and trust matter



- Pensions systems are about handing over money today in exchange for getting money back in 30 or 40 years
- To work well, system requires a great deal of trust
- Most systems enjoy very little trust & legitimacy
- Consequence: recent fund withdrawals in Peru and Chile

Process is content



- The surfing theory of reform
- Expert committees help
- Tradeoff: expediency versus legitimacy
- Key: experts have to listen
- Key: they help set the bounds of the discussion
- Key: they improve terms of Congressional discussion

Issues for the future

1. Economic: can we do something about the labor market? Pandemic offers an opportunity
2. Political: can capitalization systems regain legitimacy? Change model of fund administration
3. Fiscal: how will governments pay for pensions? Risk sharing with other contributors or with all taxpayers?



Thank you!