Reforming Pensions in the Pre and Post COVID-19 world

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Pension systems pre 2020: objectives and challenges

Objectives

- Economic
- Social
- Financial
- Sustainability
- Adequacy
- Fairness
- Incentives
- Coverage

Key Challenges in developing countries

- Low coverage
- Unsustainable
- Regressive
The coverage challenge: informality and exclusion

![Graph showing non-contributors to pension scheme and self-employment by region.](image)


**ECA**: Eastern Europe and Central Asia  
**LAC**: Latin America and the Caribbean  
**EAP**: East Asia and Pacific  
**SA**: South Asia  
**SSA**: Sub-Saharan Africa
The coverage challenge: non-coverage persists
Sustainability challenge: The end of the demographic dividend

Mainly due to:

• Increased life expectancy
• Reduced fertility rates
Sustainability challenge: Parametric inconsistencies
Fairness challenge: Pension schemes are (unintentionally?) regressive

• Fiscal support to pension schemes redistribute income from taxpayers to the covered workers

• Benefit formulas based on last salaries benefit those workers with steep income profiles, who are higher income earners and those with highest levels of education

• Early retirement benefits those who can find a new job after retirement. Also usually those with professional background

• Earlier retirement age for women results in lower pensions and amplifies the earning gap between men and women

Reference wage for pension calculation takes the average of the last two years of contributory wages
... and they often have the wrong incentives

• Incentives to:
  • Retire at a young age
  • Under-report wages at early phase in the career (when benefit formula is based on last salary)

• Lack of incentives:
  • To seek private sector jobs (preference for public sector in countries where public sector coverage is higher and pension rules are more generous for civil servants than the private sector)
  • For women to participate in the labor force (same vesting period as men, some survivorship pension schemes)
New challenge: the changing nature of work

• Labor markets will evolve towards more flexible jobs and self employment, for which the contributory Social Insurance schemes have been largely unsuccessful.

• The new digital economy will require adapting the programs designed to traditional employment modalities (wage employment under a single employer);

• To prevent from further reduction of covered population, pension systems will need to rely on a stronger combination of minimum noncontributory pensions (to ensure an extended coverage) and retirement savings or tightly income related DB (to ensure income replacement).
The digital economy: Adapting Social Protection and Labor policies

• **Paradigm shift in Social insurance**: driven by
  • changes in the world of work
  • technological change

• The paradigm change may imply a greater space for:
  • Flexible retirement
  • Savings schemes
  • Broad-based (targeted) non-contributory minimum benefit
  • Use of technology for service delivery

• ... and a greater need for:
  • coordination with current Social Assistance programs
  • IT platforms
  • Lifelong education
What might a future social protection policy package look like?
(World Bank’s Social Protection White Paper)

Policy package of protection:

- Purely voluntary privately financed
- “Nudged”, incentivized & privately financed
- Mandated & individually financed
- Guaranteed minimum: Purely publicly financed from general expenditure (broadest tax base)

- Regulated market provision of secure savings & insurance; Micro finance saving & insurance
- Default opt-ins; Information
- Minimal “adequate” smoothing N/DC accounts; Actuarially-fair DB
- Minimum guarantee
  - Transfers;
  - Subsidized premiums**

Prevents poverty and catastrophic losses

Sufficient to ensure income above the minimum, safeguarding against moral hazard

** Replaces contributory minimum guarantees and tax incentives

Digitally enabled
The turbulent 2020: COVID challenges for pensions

• Elderly and Persons with disabilities are particularly vulnerable to COVID-19.
• But Pension increases are expensive, and the crisis also affects the continuity of jobs and the ability of many workers and employers to continue paying contributions to Social Insurance programs.
• Future pensions may be result lower due to the loss of contributions, early withdrawals and lower returns on pension assets.
• Payments and IT systems need to significantly reduce face to face interaction and concentration of beneficiaries;
Social Insurance: COVID Response

- Social security contribution reforms: 51
- Pension top-ups: 13
- Administrative & delivery adaptation: 12
- Loosening regulations on pension withdrawals: 8
- Advance payment of pensions: 7
Low-income countries still have a small proportion of pensions paid in bank accounts.
Forward looking

• Compensatory measures: Stronger focus on pension reforms
• Increased focus on different modalities of work (self-employment, flexible work, gig economy)
• Link social insurance programs to improve emergency response to multiple risks
• Faster development and access to IT solutions (payments and service delivery)
• Lifelong learning to support longer careers
• Stronger focus on long term care and active aging