Pension Systems and COVID

The IMF View

IDB-LSE-NOVASTER GLOBAL PENSIONS PROGRAM 2020

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CONTEXT: ISSUES PRE-DATING THE CRISIS

- Worsening **OADR and TDR** which improvements in productivity may no compensate
- **Sustainability** constraints: time inconsistency between pre-determined pension spending and growth potential in AE, EME;
- **Adequacy** (incl. coverage) and **efficiency** issues in many EMEs and LICs
- Reforms become politically difficult as **electorates age** but public **financial literacy remains poor**
- High **public debt** in many AE and EMEs
- Poor **capacity to finance and administer social spending** (incl. pensions) in LICs
- **Funding levels** in supposedly fully funded DB schemes: relaxed regulations, low interest-low return environment
- **Structural changes in the labor market**: more fragmented careers, increasing mobility, pension entitlements' potentially negative impact on late career labor supply decisions
- **Distributional impact of pension schemes** convoluted by the relationship across LE, earning profiles and averages, skills, health status and pension levels

COVID: A NOVEL CATALYST

WHAT'S DIFFERENT?

- Much more **connectedness and global interdependence** than in 1918
- Very little **understanding and control** over the causes
- Lack of **protected germinators/levers of recovery** (geographically, sector-wise)
- Direct and **profound impact on state functions and services**: potentially freezing education, public health care, movement of goods and services
- **New modes of operation, production, communication** evolve quickly, leaving little time for "the state" to adjust

COVID AS CATALYST ACCELERATES/AGGRAVATES PRE-EXISTING PROBLEMS

- **Public debt levels** may reach unsustainable levels, requiring difficult adjustments
- **Explicit and implicit underwriting risks** w.r.t. underfunded DB schemes and poorly performing DC schemes
- **Public pension expenditures** consuming an even higher share of GDP, crowding out other spending
- Different **capacities to adjust** increase inequalities across households, cohorts, countries

THE IMF'S INSTITUTIONAL MANDATE (PENSIONS)

- Improving the **financial sustainability** of pension schemes underwritten by the government
- Considering **adequacy, equity and efficiency** criteria and how they interact with sustainability
- Promoting **universal coverage** and a **holistic approach to SP**
- Proposals focusing on the short- to medium-term **without constraining long-term policy options**.
  - *Parametric adjustments*: common
  - *Structural reform*: rare
  - *Paradigm shifts*: almost never

- Observing the **broader macroeconomic and fiscal context** and constraints
- **Intensifying collaboration** with other development partners, aiming to establish common/reconcilable socio-economic agendas

POLICY RESPONSES RECOMMENDED

CRITICAL ASSUMPTION:
COVID CAN BE BROUGHT UNDER CONTROL, NORMALCY RESUMES SOON

- **No structural reforms or paradigmatic changes** should be driven by COVID
  - Our understanding is lacking, too much uncertainty, constrained horizon
  - Unknown damage, post-crisis reconstruction needs, social preferences
- **Reforms already initiated should progress**, if possible
  - Interplay between immediate impact of the crisis and gradual reforms unclear
- **Focus on protecting jobs, productive networks, human capital**
  - Temporary, focused tax (incl. SSC) easements
  - Protecting LF participation even at the cost of higher UB spending
- **Crisis as an opportunity**
  - Revising inequitable special/preferential retirement schemes
  - Consider relying more on universal basic pensions while downsizing mandatory earnings-related benefits
  - Tighten funding rules and explore investment outside traditional markets and instruments

Thank you

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