Pension Systems and COVID

The IMF View

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The views expressed in this presentation are those of the author and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.
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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