IASP-AIPS

Discussion Paper 3/2024

Individual capitalisation in Latin American Social Security

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1. From collective capitalisation to individual capitalisation

In the early years of the 20th century, Argentina, Brazil, Chile, Costa Rica, Cuba and Uruguay - members of the High Pioneer group according to Carmelo Mesa Lago's classification - established pension programmes with contributory schemes, taking into account the social insurance model that Bismarck had imposed in Germany in the second half of the previous century. The region was anticipating the adoption of this model long before it occurred in much of the developed world and in the major economic powers.

Then, as time went on, by the end of the 1970s, all countries in the region had such pension programmes, albeit with important differences between them.

These systems based on contributory financing, which implies that benefits are closely linked to the income received by active workers and the contributions made to them, began to operate as public systems of collective capitalisation and, towards the 1950s and 1960s, were gradually transformed into pay-as-you-go systems, especially in Argentina, Brazil and Uruguay, with similar beginnings and subsequent developments[2] .

It was no coincidence that this group of countries, with greater development and having achieved greater coverage, a relatively older population and longer life expectancy, showed high operating costs, growing deficits and financial and actuarial imbalances in the early 1980s, leading to the onset of the social security crisis.

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[2] The starting point of the systems: in Argentina the first pension fund in 1904, in Brazil the first pension law "Eloy Chaves" in 1923, and in Uruguay the "Ciganda" law creating the first pension fund in 1896.

In general, all systems were - and still are - facing a deep crisis, mainly due to increased longevity, lower birth rates, new forms of production, labour market impacts and job losses.

While in Europe, in the face of this problem, parametric reforms of public systems were promoted, strengthening the pay-as-you-go models managed by the national states, in Latin America structural reforms were carried out[3] , modifying the systems in depth, moving from state to private management and under the model of individual capitalisation. Once again, the region was ahead of the curve on the novel ideas of privatisation of pension management, much earlier than some Eastern European countries that followed suit.

Thus, in the 1990s, some countries carried out reforms for the financial sustainability of the systems and the reduction of public spending, which included in different variants the ideas inaugurated in Chile at the beginning of the 1980s, with the incorporation of pension fund administrators (AFPs), private companies that administer workers' individual funds, and for which they receive a commission. This meant a deepening of the contributory model, but in individual capitalisation - without solidarity - with the privatisation of the management of pension contribution funds in individual accounts.

The worker's future and livelihood in the passive stage depends on his or her ability to generate savings in his or her individual account and the market risk to which his or her privately held savings were exposed.

Between 1981 and 2014, thirty countries in the world fully or partially privatised their mandatory public pension systems:

1.1. Fourteen in Latin America (considering the chronological order of reforms: Chile, Peru, Argentina, Colombia, Uruguay, Plurinational State of Bolivia, Mexico, Bolivarian Republic of Venezuela, El Salvador, Nicaragua, Costa Rica, Ecuador, Dominican Republic and Panama);
1.2. Fourteen in Eastern Europe and the former Soviet Union (Hungary, Kazakhstan, Croatia, Poland, Latvia, Bulgaria, Estonia, Russian Federation, Lithuania, Romania, Slovakia, Macedonia, Czech Republic and Armenia),
1.3. Two in Africa (Nigeria and Ghana)[4] .

2. <u>Individual capitalisation in the region</u>

[3] A structural reform radically transforms the system (from public to fully or partially private), while a parametric reform maintains the public system, but with changes in its parameters to make it more financially and actuarially sustainable, for example, by increasing the retirement age, changing the pension calculation formula, adjusting benefits or a combination of all these measures. Mesa-Lago, C. "Pensiones de capitalización individual en América Latina: efectos, reformas, impacto del COVID-19 y propuestas de política", Políticas Sociales series, No. 242 LC/TS.2022/99), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2022.

[4] *Reversing pension privatisation: Rebuilding public pension systems in Eastern European and Latin American countries (2000-2018)*. ESS – Working Paper No. 63. Social Protection Department. INTERNATIONAL LABOUR OFFICE. First edition 2019.

By 2003, eleven Latin American countries had introduced structural pension reforms, and 56 million workers (one third of the labour force in the region) were enrolled in private pension systems.

The region has a unique, extensive and diverse experience of almost four decades of such reforms, which since the late 1990s and in the early years of the current century have been taken as a model in Eastern Europe.

The individually funded system in accounts can be characterised as follows:

a) Financial system of capitalisation through individual accounts.
b) Administration of pension funds and individual accounts, mostly private but may also be public;
(c) Benefits are financed by the capital accumulated in individual accounts (and any investment returns), with no legally defined replacement rates.
d) The contributions, which are defined by law, provide for the deduction of AFP commissions and the cost of disability and death insurance.

2.1. The models [5]

In the region, the ***substitutive*** model prevailed, implemented in five countries: Chile (1981), Mexico (1997), the Plurinational State of Bolivia (1997), El Salvador (1998) and the Dominican Republic (2001). It replaced the public system with an individually funded system. Currently, in most of these countries the system has been reformed or the possibility of doing so is being discussed, especially because of the limitations of the model, which is characterised by insufficient benefits and low coverage.

2.1.2 A variant was the ***parallel*** or dual ***model***, in which workers have to choose between the public pay-as-you-go system or the individually funded system. The two systems are mutually exclusive and compete for members, and in some cases there is the possibility of switching systems. This model was implemented in Peru (1993) and then in Colombia (1994). In the latter country, a reform project was presented in 2023 to move to a mixed system.

2.1.3. The third alternative is the ***mixed*** pension ***model, in*** which the public pay-as-you-go system and the individually funded system complement each other, and members *can or must* belong to both systems. Three countries have mixed systems: Costa Rica (2001), Panama (2005) and Uruguay (1996). There, there is a predominantly public pay-as-you-go system and an individually funded scheme that supplements the pensions of all beneficiaries or does so only for higher income groups (Panama and Uruguay). The administration of the funded scheme is public in Panama.

2.1.4. Within the mixed model, we could include the system in force in Argentina (1994) until 2008, highlighting the particularities, which have led some authors to create a fourth category called "Integrated Parallel model"[6] . It included a universal solidarity base or first pillar, for those insured in the pay-as-you-go

[5] Garcia Rapp, J. (2020). "The reforms of the pension systems**"**. Suplemento Seguridad Social, Eldial.com. Buenos Aires.
[6] Arenas de Mesa, A. **"**Los sistemas de pensiones en la encrucijada: desafíos para la sostenibilidad en América Latina**"**. Libros de la CEPAL, No. 159 (LC/PUB.2019/19-P), Santiago, (ECLAC), 2019.

system and also for those in the individually funded system, who could choose between the old public pay-as-you-go system or the individually funded system. The solidarity base consisted of the universal basic benefit (PBU) for all workers who had contributed for 30 years.

In describing the new trends in the region, Mesa Lago (2022) argues "... *between the Chilean reform and the next - the Peruvian one - 12 years elapsed; this was because the first was imposed without public discussion by the Pinochet dictatorship; ... it was not until after the restoration of democracy in Chile by the Concertación in 1990 that other nations in the region applied variants of the structural reform. On the other hand, with respect to the later reform, that of Panama, the case is very complex, because only 15% of the economically active population (EAP) is affiliated to the private pillar and the capital in the accounts is much less than 0.1% of GDP, so the Panamanian figures distort the whole, nevertheless, they will be included whenever possible. After the Panamanian law (2005) there has not been another structural reform (16 years) that attempts to advance in introducing individual capitalisation; in 2019, Jair Bolsonaro president of Brazil, who has implemented privatisation and deregulation policies, introduced a structural reform bill in congress, which was subsequently withdrawn*."[7] .

In total, the countries in the region with structural reforms numbered 14, but on the list are Ecuador (2001), Nicaragua (2000), and Venezuela (1997), which passed laws with individually funded systems, but without force, and were repealed in 2002, 2005 and 2000 respectively.

We should now complete the picture in the region with countries with pay-as-you-go systems (Argentina, Brazil, Cuba, Ecuador, Honduras, Guatemala, Nicaragua and Venezuela) or collective partial capitalisation (Paraguay). Understood as models in which the contributions of active workers make up a fund - not an individual one - from which benefits are paid to all beneficiaries, a real endowment fund.

It is interesting to note the case of Brazil, a country in which closed (company-sponsored) pension funds have existed for workers in the private sector since long before the 1980s. The drastic change from a pay-as-you-go system to a funded system was discussed, but this line of reform was discarded largely because of the fiscal costs associated with the reforms, especially the so-called transition cost, and therefore modifications were made with a view to a notional defined-contribution scheme or virtual accounts. Later, in the first decades of the 21st century, regulations were passed that allowed public servants to set up closed funds as well.

3. The results in three decades of PFAs.

Pension privatisation was presented in the 1990s as a solution to address population ageing and guarantee the sustainability of pension systems. State-run systems in many countries had strong challenges, many special schemes with

[7] Mesa-Lago, C. "Pensiones de capitalización individual en América Latina: efectos, reformas, impacto del COVID-19 y propuestas de política", Políticas Sociales series, No. 242 LC/TS.2022/99), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2022.

different benefit access and benefit calculation requirements than general schemes, fragmentation of systems according to territoriality or activity or occupation, informality and low coverage, and insufficient contribution rates, but they could also have been addressed with parametric reforms, maintaining public systems.

No developed or industrialised democratic country replaced its public pension system with a private system of fully funded individual accounts[8] . In developing countries, privatisation was presented as the solution.

Expectations were high when reforms were introduced; countries expected to improve both their pension systems and their overall economic performance. Coverage rates and benefit levels were expected to increase, inequalities to decrease, administrative costs to be reduced through market competition, governance of pension management to improve, and capital markets to deepen their support for new investment and economic growth. Not to mention the expected decline in public pension expenditure.

Structural reforms did not produce the expected results, coverage levels stagnated or declined, benefit amounts did not increase or declined, and gender and income inequalities were not resolved and/or worsened. The risk of fluctuations in the financial markets where funds are invested was passed on to members. Commissions and administrative costs increased, thereby reducing the amount of benefits. And most impacting on the public accounts were the high transition costs that generated strong fiscal pressures.

The economic groups responsible for fund management and the private insurance sector, which benefits from pension savings, moved towards concentration, generating a serious conflict of interest as the cost of insurance was passed on to contributors in commissions. [9]OBJ.

3.1. Coverage stagnated or declined

In the privatisation of the systems it was claimed that mandatory individual accounts would improve compliance and workers' willingness to join and contribute, but the reality was different: the coverage of the systems did not increase; on the contrary, in most countries there was a decline in the coverage rates of the contributory schemes, measured as the proportion of active contributors in the labour force.

Coverage rates in Chile fell from 64% (1980) to 61% in 2007, and in Mexico it also declined from 37 to 30% between 1996 and 2004 (Mesa-Lago, 2014). In Argentina, the number of contributors fell from 46% (1993) to 35% in 2002 for men, and from 42% to 31% for women (Bertranou, 2018).

In some countries, coverage stagnated after privatisation, for example, in the Plurinational State of Bolivia coverage rates stagnated at around 12 per cent between 1997 and 2009 (Mesa-Lago, 2018). Between 1991 and 2010, coverage

[8] Sweden's pension system is the only case of a developed country with individual accounts as the first pillar: however, the system is still publicly managed, even though private companies are involved in investing assets.

[9] "The reversal of pension privatisation: Rebuilding public pension systems in Eastern European and Latin American countries". Cited.

rates in Colombia stagnated at around 28 per cent (World Bank, 2014), and if we extend the line of analysis after thirty years it grew by only 3 per cent, only 1 per cent every ten years of reform. In Uruguay they stagnated at around 70 per cent between 1995 and 2003.

It argues that structural reformers promised that EAP coverage would increase, while there was no promise on coverage of older adults (Mesa-Lago 2022), then adds that there is an overestimation of EAP coverage based on affiliates in the private system versus active contributors, so the respective coverages in 2020 were: 111% and 23% in El Salvador, 122% and 34% in Mexico, 114% and 47% in Costa Rica, and 123% and 66% in Chile. The AIOS statistics exclude those insured in the public system or pillar, as well as those insured in separate schemes[10] .

3.2. The amount of benefits deteriorated.

Structural reforms involve a shift from defined benefits to defined contributions, and this change affected the replacement rates of benefits paid by the schemes. In many cases, the benefits granted did not comply with ILO standards[11] , which provide for a minimum replacement rate of 40/45% of the reference wage. In Bolivia, after the reform, the replacement rate reached an average of 20% of the average wage earned during active life. In Chile, the median of projected replacement rates is 15%, and only 3.8% for low-income contributors (Comisión Asesora Presidencial sobre el Sistema de Pensiones, Comisión Bravo, 2015, p. 88).

"The deterioration in benefit levels led to an increase in old-age poverty, which undermines the main objective of pension systems, which is to provide adequate income security in old age". [12]

In 2015, the Inter-American Development Bank (IDB) compares gross rates of return (RR) (without income tax discount on the reference wage) between private and public pension systems: the average in the former is 39.8%, while in the latter it is 64.7%, both the average and the RR in five private systems is below the ILO-referred 45% (Altamirano et al., 2018). In Chile, the TR is 34% of the average wage over the last 10 years; it is projected to decline to 15% by 2025-2035 (CAPSP, 2015); in El Salvador 59% of the insured will only receive the return of the balance in their individual account (Mesa-Lago and Rivera, 2020); in Mexico, the average TR is 26% and 64% will not receive a pension (Ortiz et al., 2018); in Peru, the average TR is 39% and 60-65% will not receive a pension (Cruz-Saco et al., 2018); and in the Dominican Republic the average TR is 27% and the bottom three income quintiles will not receive a pension (Pichardo, Guerrero and Mesa-Lago, 2020). Not only are these TRs lower than the ILO minimum of 45%, but between 27% and 65% of insured people in the five countries considered will not receive a pension.

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[10] Mesa-Lago, C. (2022) , cited

[11] as set out in the Social Security (Minimum Standards) Convention, 1952 (No. 102) 9 and the Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128) which provide for a replacement rate of at least 40 per cent (ILO Convention No. 102) or 45 per cent (Convention No. 128) 10 of the reference wage after 30 years of contribution or employment (Box 2).

[12] "The reversal of pension privatisation: Rebuilding public pension systems in Eastern European and Latin American countries". Cited.

In a more recent study the OECD (2021) calculates "hypothetical "11 gross TRs for four private and two public systems; the rate is based on average earnings: Chile has a TR of 31.2% (below the average of 51.8% for all OECD member countries),12 Mexico 61.2% and Costa Rica-combining the two pillars-71.9%; defined benefit systems have higher TRs: Argentina 76.1% and Brazil 88.4%. The negative performance of private systems in pension adequacy has generated protests in several of the countries, particularly in Chile, where public demonstrations against the AFPs and the discussion on the design of the pension system has remained at the centre of the public agenda[13] .

3.3. High fiscal costs.

The high cost of the transition from a PAYG to an individually funded system generated enormous fiscal pressures, and was largely underestimated in the reforming countries.

Governments had to recognise the benefit entitlements or acquired rights of contributors to the old public system, but also to support the transfer of active contributors from the PAYG system to the new private system, which generated a financial deficit in the public system, increasing the tax burden in the short term, since the PAYG system had to continue to meet the benefit payments in progress from the old system's stock of beneficiaries.

The high fiscal costs caused most governments to impose on the AFPs the acquisition of public securities or government bonds with the managed funds (owned by the contributing workers), creating a circle in which the beneficiaries were the administrators, who obtained high rates (partly for the funds themselves) and commissions for their management. A constant issuing of government bonds to finance the transition costs of privatisation created a vicious and costly circle.

In most cases there was no proper analysis of the expected transition costs, and in others the calculations were based on optimistic assumptions.

In Bolivia, the actual transition costs of reform were 2.5 times higher than initial projections. The World Bank had estimated them at 0.2 % of GDP in 2040, but then projected them to amount to 1.7 %, more than 8 times the original estimate. In Argentina, the initial estimate was for a value ranging from 0.2% of GDP to a surplus of 0.2% of GDP, but the World Bank later estimated that the transition would cost 3.6% of GDP, 18 times the original estimate (Mesa-Lago, 2004).

The fiscal crisis created by pension privatisation was unacceptable to many governments, as the main driver of reforms in all countries had been concerns about fiscal costs and the financial sustainability of public systems. In the face of these concerns, privatised reforms were presented and "promoted" as the remedy to the inevitable future "social security crisis", and it was argued that the reforms could ensure sustainable future financing of pension systems.

In Chile, even thirty years after the reform, in 2010, transition costs still represented 4.7% of GDP (Mesa-Lago, 2014). In Argentina, after privatisation, the public pension system showed an annual deficit of 3.3% of GDP in 2000,

[13] Mesa-Lago C. (2022) , cited

while contributions diverted to the private system represented about 1.5% of GDP (Bertranou, 2018).

Moreover, in addition to the direct transition costs, additional costs also arose from the compensatory measures that governments had to implement to cover the low benefit levels of funded systems.

Some countries adopted measures guaranteeing a minimum level of return on pension fund investments to compensate for financial losses in times of economic downturn. Contributors must also bear the cost of pension supplements to augment the low levels of pension benefits provided by the new system.

3.4. Commissions and administrative costs.

It has been suggested that one of the main reasons for the high commissions of the AFPs is the absence or scarce competition among them. It is argued that if competition worked, there would be an appreciable number of transfers from the less competitive ones to the more competitive ones. But the annual percentage of transfers relative to the number of members declined in all countries between the year of the largest transfers and 2019. In this year the percentage of transfers ranged from 0% (Bolivia, El Salvador and Panama) to 1% in five countries, between 2% and 4% in two countries and 5% in Chile. And finally, in Mexico, where there are ten AFORES, only 4% changed fund managers[14] .

The administrative cost is high and sustained; this cost as a percentage of salary is made up of the net commission that the AFP receives for its services and the premium for disability and death insurance that the administrator adds and transfers to a commercial insurance company. In some cases, the administrator maintains a link with an allied company, so there is not much competition between insurance companies here either.

It is not possible to compare the cost across the ten countries due to the great diversity of net commissions (some are fixed, others on salary, on balance, on yield or combinations of the above), and Mesa Lago (2022) surveys six countries with data on net commission and premium as a percentage of salaries, as well as the respective percentage deposited in the individual account. The administrative cost (sum of net commission and premium) as a proportion of the total deposit percentage in the account in 2019 ranged from 22% in the Plurinational State of Bolivia (due to government imposed caps) to 30% in Peru; in Chile, where the system has been in place for 40 years, it has a cost of 28% of the deposit percentage in the account (Mesa-Lago, 2020). It has been shown that for every percentage point of net commission charged during the insured's active life, the amount of the future pension is reduced by 20% (Barr and Diamond, 2008).

4. From the contributory model to universality.

The reforms at the beginning of the 21st century, unlike those implemented at the end of the 20th century, were oriented towards the objective of inclusion,

[14] Mesa-Lago. C. (2022) cited

expanding the coverage of the systems beyond the group of registered workers traditionally covered.

The contributory systems prevailing since social insurance until the beginning of the current century had given rise to the existence of non-contributory schemes in parallel, but the trend observed in recent decades was "unprecedented in its intensity and the speed with which it expanded. Between 2000 and 2013, at least 18 countries in the region introduced inclusive reforms that sought to expand coverage for older adults"[15] . The sufficiency of the assets received to meet the objectives of coverage and inclusion was left aside, and the incorporation of some universal or non-contributory element aimed at reducing poverty among older adults prevailed.

The doctrine in the international sphere dealt with the issue, especially in the face of this latest trend, which motivated the interest of analysts, authors and institutions that prepared reports to identify the main elements of these policies and their differences with the classic contributory systems.

The main international organisations also accompanied these changes, and the International Labour Organisation (ILO), at the 2001 International Labour Conference, had argued the need for a new consensus on this issue. The World Bank published a regional report discussing the effectiveness of the new systems in responding to social demands, and took up the debate again in 2005, through the publication "Old Age Income Support in the 21st Century", which suggests the adoption of a five-pillar scheme, which in a complementary way would result in universal coverage[16] . The Economic Commission for Latin America and the Caribbean (ECLAC) published its report stating that the central objective of the policy should be coverage, within the framework of a "rights-based approach", where access to benefits should not be linked to the existence of previous contributions but to the condition of citizenship (2006)[17] .

In a similar vein, in 2011 the ILO put forward the concept of a "Social Protection Floor", which promoted the adoption of pension schemes that, through a combination of instruments, would make it possible to develop a model of universal coverage, and with Recommendation 202, began to postulate the notion of national social protection floors (2011)[18] . The Inter-American Development Bank (IDB) also contributed to this debate with a publication that analyses the issue and proposes a universal coverage scheme with tax financing, complemented by contributory schemes with subsidies (2013)[19] .

In our country and in the field of law, not much has been said, or rather some criticisms have been made, about this trend, which in the pension system materialised with the pension moratoriums that allowed access to retirement to

[15] ROFMAN, Rafael. Apella, Ignacio. "Mas allá de las pensiones contributivas. Fourteen experiences in Latin America." World Bank. Bs.As. 2013. p.9

[16] Holzmann, R and R. Hinz. "Old Age Income Support in the 21st Century", World Bank, Washington. DC. 2005.

[17] ECLAC "La Protección Social de Cara al Futuro: Acceso, Financiamiento y Solidaridad, Informe para el trigésimo primer período de sesiones", ECLAC, Montevideo. 2006.

[18] ILO. "Social Protection Floor for a fair and inclusive globalization". ILO, Geneva.2011

[19] IDB "Better Pensions, Better Jobs: Towards Universal Coverage in Latin America and the Caribbean". IDB. Washington DC. 2013.

those who incorporated the missing years of contributions, with an extemporaneous affiliation and the payment in instalments of the debt for contributions not made, which allowed the moratorium regime also known as the "purchase of contributions" or housewife's retirement[20] .

Regarding the coverage of older adults, we can observe that the weighted average for Latin America increased from 51.5% in 2000 to 76.2% in 2017. Mexico and Venezuela with the highest percentage increases and importance in terms of population, and three other countries, in which coverage increased considerably, explain part of the increase in the region are: Argentina (from 62.7% to 92.5%), Peru (from 26.5% to 48.8%) and Colombia (from 12.4% in 2003 to 45.7% in 2017)[21] .

Other countries with a high level of coverage, such as Brazil, Chile and Uruguay, remained relatively stable at around 87%. In 2017, the highest levels of coverage of older adults, considering contributory and non-contributory benefits, were Bolivia (98.1%), Argentina (92.5%); Uruguay (87.9%); Brazil (87.1%); Chile (87.0%) and Mexico (81.6%).

5. Capitalisation: reforms and reversals in the region

In the first two decades of the 21st century, the discussion and the reforms that followed focused on the concern for increasing coverage. The systems built in the different countries presented problems in terms of the number of people they were able to cover, and those who actually had sufficient pensions at the end of their working lives to meet their basic needs.

For this reason, some universal elements began to be incorporated, with direct state funding and a redefining of the role that the state has to play in pension systems.

In the introduction we indicated that since the Chilean reform of 1981 and up to 2014, thirty countries have fully or partially privatised their mandatory public pension systems, adopting the capitalisation model in individual accounts managed by the AFPs.

As of 2018, fifteen countries had reformed, fully or partially reversing pension privatisation. Thus, Bulgaria (2007), Argentina (2008), Czech Republic (2016), Estonia, Latvia and Lithuania (2009), Hungary (2010), Croatia and Macedonia (2011), Poland (2011), Russian Federation (2012), Kazakhstan (2013), Slovakia (2008), Romania (2017) and the Plurinational State of Bolivia (2009).

We can reach 18 countries by adding Ecuador (2001), Nicaragua (2000), and Venezuela (1997), which passed structural reform laws with capitalisation systems, but were repealed between 2000 and 2005 without coming into force.

The vast majority of these countries reversed privatisation after the global financial crisis of 2007-2008, when the flaws of the privately managed capitalisation system became evident and demanded corrections.

[20] Law 24.476, DNU 1454/05, and Law 26.970.
[21] ARENAS de MESA, A. cited.

Many governments were concerned about these developments and weighed the advantages of returning to public pay-as-you-go schemes, in order to avoid the very high fiscal costs and where future financial obligations could be calculated with greater certainty.

In the first decades of the 21st century, pension systems were reformed to increase coverage and cover those excluded in the contributory systems, and those managed by the AFP under the individually funded model were no exception, with the aim of improving sufficiency being added to them.

Chile's substitute system was reformed in 2008, establishing an integrated model comprising a solidarity pension system and individual funding. The Argentinean system was also structurally reformed in 2008, eliminating individual funding and leaving only the state-administered pay-as-you-go system.

In Argentina (2008), a law was passed to eliminate individual capitalisation and return to a single pay-as-you-go public system. In Uruguay (2008) a parametric reform was implemented with a renewed public role in the system.

In the Plurinational State of Bolivia, the individually funded system was nationalised in 2010, increasing the state's participation and the solidarity of the system, and in recent months the management of the funds, which was still in the hands of the two existing AFPs, was definitively transferred to the state.

Costa Rica (2016-2017), within the mixed system, strengthened the financial sustainability of the PAYG system, and El Salvador (2017) introduced a collective savings component in the individually funded system.

In the Eastern Republic of Uruguay (2018), the law of "los cincuentones" was passed, which authorised the transfer from the capitalisation to the pay-as-you-go system of those contributors who would not be able to save the necessary funds to receive a sufficient benefit at the minimum retirement age.

El Salvador, in 2017, approved a reform of the individually funded system; and in the case of the Dominican Republic, the structural reform of 2001 created an individually funded system, called the contributory pension system, and two other pension systems: the subsidised system, for vulnerable groups, and the subsidised contributory system, for the self-employed. The repeal of privatisation laws in Venezuela (2000), Ecuador (2002), and Nicaragua (2005) has already been noted.

The reforms in the region, although in preliminary form and subject to some future analysis refinement exercises, offer a count of positive impacts on the principles - except for the adverse aspects in financial-actuarial sustainability - such as the transformation of the substitute system into a public or mixed system in three systems, and as Mesa-Lago (2022) points out, confirms that the greatest depth is found in Argentina (16 improvements and change to a public system), followed by the Plurinational State of Bolivia (13 improvements and change to a mixed system, maintaining until this year the administration of the individual accounts in charge of the AFPs, and recently passing it to the State), Chile (15 improvements and transforming into an "integrated" system), Mexico (11 improvements and

maintaining the substitutive system) and El Salvador (8 improvements and change to a mixed system)[22] .

Progress on the principles of coverage, social solidarity, gender equality and adequacy, and administrative improvements, must be confronted with the problems of financial-actuarial sustainability, and some preliminary conclusions emerge from this exercise. Argentina's and Bolivia's reforms have made great progress in social-administrative principles, but at a high cost, and thus suffer from very low financial-actuarial sustainability, which endangers the progress achieved; Chile's reform, although it did not change the nature of the system but also achieved substantial social and administrative progress, was more cautious with respect to sustainability, at a relatively low cost compared to Argentina and Bolivia; Mexico's reform does not yet show evidence of its effects on financial-actuarial sustainability and did not carry out an actuarial study; and finally, El Salvador's reform changed the nature of the system but has the least socio-administrative impact and its financial-actuarial sustainability is precarious; it did not carry out a prior actuarial study but the subsequent one demonstrates the limitations of its medium-term sustainability.

6. Trends revealed in the reforms

The table of the reforms outlined above and the summary of their impact on the principles of social security shows that, at the beginning of 2022, no *pure private system* was still in place in Latin America.

In Costa Rica, El Salvador, Panama and Uruguay, various forms of the *mixed system* subsist and have been reformed to expand, strengthen and improve it. In Costa Rica, a parametric reform was adopted to maintain the financial sustainability of the public PAYG pillar within its mixed system.

In Bolivia, the initial substitution scheme has been reformulated as a mixed system, with a pay-as-you-go pillar and a funded pillar that recently passed to public management.

In Colombia and Peru, the dual or parallel model, which includes a public system, is being debated in re-reforms that lean towards an integration of both systems in a mixed model. Colombia's reform bill has been awaiting debate in the Senate since 2023, and proposes a mixed system in the "Uruguayan" style, and adds a zero or solidarity pillar that would provide minimum benefits to be paid by the state.

Chile's reform incorporated elements of solidarity that mutated the original substitute system into one described as *integrated*, in that it manages to articulate contributory and publicly funded contributions through the Solidarity Pension System, and in particular, through the Solidarity Pension Contribution (Arenas de Mesa, 2019; ECLAC, 2018).

Reforms are also being considered in the Dominican Republic and Panama, but have yet to materialise.

[22] Mesa-Lago, C. (2022) "Pensiones de capitalización individual en América Latina: efectos, reformas, impacto del COVID-19 y propuestas de política", cited.

Today, 40 years after the start of pension privatisation in Chile, nine countries maintain their public pay-as-you-go systems without private capitalisation: Argentina, Brazil, Cuba, Ecuador, Guatemala, Honduras, Nicaragua, Paraguay and the Bolivarian Republic of Venezuela[23] . Of course, the survey of the problems faced by privately managed systems with capitalization does not imply that public pay-as-you-go systems or Collective Partial Capitalization (in some public systems) in Latin America do not face problems, some of which are similar to those indicated for privatized systems[24] .

As mentioned above, the reform processes in the first decades of this century were oriented towards increasing inclusion by expanding the coverage of the systems beyond registered workers.

The contributory systems in force in the first half of the last century, in collective capitalisation schemes, mutated into pay-as-you-go systems or similar variants in the 1950s and 1960s.

After capitalisation in the 1990s, and in the 21st century, an intense process of increasing coverage was promoted, which was unprecedented in terms of the speed and intensity of its expansion. In the first 15 years, around 20 countries in the region introduced inclusive reforms that sought to expand coverage for older adults.

And they did so with relative success as Latin America's weighted average coverage increased from 51.5 per cent in 2000 to 76.2 per cent in 2017.

As a conclusion of the reform process in the region, some trends can be highlighted:

a. an increase in the role of the state and a decline in the role of private fund managers (AFPs);

b. a trend towards the transformation of the private substitute system into a mixed system with a public pay-as-you-go component.

The reforms of public and private systems have been characterised by a new regional trend towards the incorporation of some universal component in contributory systems. Responses have been combined with a strong state presence (contributory and non-contributory).

[23] Haiti also has a public pay-as-you-go pension system.

[24] Garcia Rapp, J. (2019). **"**Consideraciones acerca de la reforma en jubilaciones y pensiones**"**. *Journal Temas de Derecho laboral y de la Seguridad Social*, Erreius. Buenos Aires.

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