

Absent reforms, up to 60% of LatAm seniors will not have pensions by 2050 Business News Americas, Wednesday, 16 October 2013, 527 Words, (c) 2013 Business News Americas (BNamericas.com)

By 2050, 140mn Latin Americans will reach retirement age and, in the absence of reforms, it is estimated that between 47%-60% of them will not have contributed enough to receive a pension, according to a new book published by the IDB.

Today, only 4 out of 10 people are saving for retirement in Latin America and the Caribbean, a situation that can have serious social and economic consequences as the population ages.

According to the IDB, It is feasible to guarantee an adequate pension for all citizens and encourage the creation of formal jobs in Latin America and the Caribbean, but urgent, comprehensive and transparent reforms are needed.

“Reform goes hand in hand with establishing sustainable and efficient anti-poverty pension schemes and simultaneously encouraging the growth of formal employment, for example, by subsidizing pension contributions. Moreover, advances are required in the areas of financial controls, information and education,” said Carmen Pagés-Serra, coauthor of the book entitled “Better Pensions, Better Jobs: Towards Universal Coverage in Latin America and the Caribbean”.

Demographically, the region is still young, which facilitates political approval of the reforms and reduces their cost. But action must be taken now because the demographic window of opportunity will soon pass.

The IDB book concludes that pensions could be made universal by earmarking less than 1% of GDP, to be funded through sales or commodity taxes, for example.

The IDB’s proposal is twofold: creating an antipoverty universal non-contributory pension (which should be integrated with the general pension system, complemented by strong fiscal institutions and reconciled with a change in the rules so that the system forces all workers to save for their retirement) and a firm commitment to formal employment.

LABOR MARKET, CAUSE AND SOLUTION

According to IDB President Luis Alberto Moreno, the creation of formal jobs is key to guaranteeing sustainable pension systems. “We believe that pension reform would not only provide incentives to boost formal employment and productivity, but also encourage investments in infrastructure and human capital in the region,” he said.

About 6 out of every 10 Latin American workers are not setting aside savings for their pension. This

means that 130mn workers do not make social security contributions, and can therefore be considered informal workers. The informal sector is comprised of self-employed workers, employees of small companies and low-income workers.

However, informality is not an incurable disease and is partly determined by the way social security systems have been designed since the beginning, the IDB said.

Informality is also determined by the incentives that the state provides in labor markets and by the value that workers and firms place on the benefits of formality. Still, according to the multilateral, all of these issues can be addressed properly. Moving towards universal pension coverage is achievable and it is fiscally feasible both in the present and in the future, it added.

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