

The Political Economy of Pension Re-Reform in Chile and Argentina

Toward More Inclusive Protection

Katja Hujo and Mariana Rulli

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Acronyms

AFP	Administradora de Fondos de Pensiones (<i>Pension Fund Administrator</i>)
AFJP	Administradora de Fondos de Jubilaciones y Pensiones (<i>Retirement and Pension Funds Administrator</i>)
ANSES	Administración Nacional de la Seguridad Social (<i>National Administration of Social Security</i>)
APS	Aporte Previsional Solidario (<i>Solidarity Pension Complement</i>)
CEPAL	Comisión Económica para América Latina y el Caribe (<i>Economic Commission for Latin America and the Caribbean</i>)
DB	Defined benefit
DC	Defined contribution
DIPRES	Dirección de Presupuestos (<i>Budget Office</i>)
FGS	Fondo de Garantía de Sustentabilidad (<i>Guarantee Fund for Sustainability</i>)
GDP	Gross domestic product
IFF	Individual fully funded
IFI	International financial institution
ILO	International Labour Organization
IPS	Instituto de Previsión Social (<i>Pension Institute</i>)
MDG	Millennium Development Goal
PAP	Prestación Adicional por Permanencia (<i>Additional pension</i>)
PASIS	Pensiones Asistenciales (<i>Social pensions</i>)
PAYG	Pay-as-you-go
PBS	Pensión Básica Solidaria (<i>Basic Solidarity Pension</i>)
PBU	Prestación Básica Universal (<i>Basic Universal Pension</i>)
SAFP	Superintendencia de Administradores de Fondos de Pensiones (<i>Superintendency of Pension Fund Administrators</i>)
SPS	Sistema de Pensiones Solidarias (<i>Solidarity Pension System</i>)
SIPA	Sistema Integrado Previsional Argentino (<i>Argentinian Integrated Pension System</i>)
UNRISD	United Nations Research Institute for Social Development

Summary

This paper argues that reforms implemented in 2008, the re-nationalization of the private pension funds in Argentina and the introduction of a social pension in Chile have moved both countries toward greater social inclusion in old-age protection. In the case of Chile this was achieved in 2008 after extensive public debate and consultation processes. The non-contributory Sistema de Pensiones Solidarias (SPS) replaced the former minimum pension guarantee (which required 20 contribution years) and the means-tested social pension which also had a cap on the maximum number of transfers. The new solidarity pension is granted to elderly who are not eligible for other pensions, aged 65 and older, and have resided in the country for the last 20 years. Benefit coverage will be extended gradually to 60 per cent of the poorest elderly by 2012, reaching an estimated 1.3 million beneficiaries with a monthly benefit of USD 145. A broad agreement among specialists about the main problems and challenges of the private pension system and the strong fiscal position of the country have been identified as the main factors leading to a successful reform, which also included several parametric changes with regard to fund investment, gender equality and improved coverage of the contributory scheme.

In Argentina, after years of criticism and parametric reforms of the private pension fund system which had replaced the pay-as-you-go (PAYG) system in 1994 as part of a neoliberal reform agenda, the re-nationalization of private pension funds was implemented by the administration of Cristina Fernández de Kirchner at the outset of the global financial crisis in 2008. The actual absorption of pension savings accumulated in individual accounts by the national social security administration had been preceded by several reform measures, leading to a significant expansion of coverage of non- and semi-contributory pension benefits. The reform was criticized as a top-down decision, which missed the opportunity to create a broad-based consensus on the new pension system.

Alongside a strong discourse on coverage expansion and greater inclusion, financial and financing issues played a key role in both reforms. In Chile, a reform that was meant to guarantee the long-term financial and social sustainability of the private pension system was made politically possible because of increased revenues from mineral rents and declining transition costs related to pension privatization in 1981; in Argentina, the reform was a response to the perceived present and future fiscal costs of a privatized pension system and the immediate benefit of channelling accumulated funds into public coffers when these were needed for economic stimulus measures as a response to the global crisis.

Katja Hujo is Research Coordinator at the United Nations Research Institute for Social Development (UNRISD). Mariana Rulli is a lecturer in Political Science at the University of Rio Negro, Argentina. She is also doing her doctorate thesis at the Latin American School of Social Sciences (FLACSO) on the pension reforms in Argentina.

Introduction

Argentina and Chile were pioneers in Latin America in creating pension systems at the beginning of the twentieth century (Mesa-Lago 1978). They were also at the forefront of pension privatization in the 1980s and 1990s.¹ The Chilean pension reform of 1981 completely replaced the historical pay-as-you-go (PAYG) scheme with a new pension system based on individual capitalization accounts and private management, while reducing state responsibility to a minimum pension guaranteed for the insured who had contributed for at least 20 years. A decade after this reform, Argentina followed the Chilean example in the context of Washington consensus reforms adopted in the early 1990s as one of the 12 Latin American countries that introduced multi-pillar pension systems advocated by the World Bank in its seminal publication, *Averting the Old-Age Crisis* (World Bank 1994). The Argentinian pension model implemented in 1994 differed, however, from the Chilean precedent on several accounts, mainly regarding the option to remain in a reformed public system (with tightened access criteria in terms of retirement age and contribution years) versus switching to a mixed model combining a flat basic pension with individual fully funded (IFF) accounts modelled after the Chilean reform.

The most recent reforms implemented in 2008—the re-nationalization of private pension funds in Argentina and introduction of an extended social pension programme in Chile—have moved both countries toward greater social inclusion in old-age protection. Nevertheless, this has been pursued in very different ways and with different reform outcomes, which raises several questions: are we, after three decades of privatization models dominating pension reform, witnessing an emerging paradigm shift in pension policy in the region, characterized by a greater role for the state, and more emphasis on coverage and redistribution? What were the reform drivers and what is the likely social and economic impact of reforms? Are the new systems sustainable in economic and political terms?

The 2008 reforms enacted in Argentina and Chile were justified by similar concerns about the unsatisfactory performance of privatized pension systems in terms of coverage, equity and efficiency, but reform measures and processes differed substantially. In terms of reform measures, Argentina implemented a radical return to the previous defined-benefit (DB), public PAYG system by eliminating the private component of its mixed system and transferring private savings toward the public social security administration, whereas Chile maintained private pension accounts and the defined-contribution (DC) approach and strengthened mainly the non-contributory poverty reduction pillar. While in Chile there was a wide public debate and participation of key stakeholders throughout the decision process, the Argentinean reform was quickly pushed through parliament without any major debate on reform options that had been suggested by parliamentarians, civil society actors and academics.²

Alongside a strong discourse on coverage expansion and greater inclusion, financial issues played a key role in both reforms. In Chile, a reform that was meant to guarantee the long-term financial and social sustainability of the private pension system was made

¹ Arenas de Mesa and Mesa-Lago 2006; Barrientos 1998; Mesa-Lago 2001, 2004; Arenas de Mesa and Bertranou 1997; Hujo 1999; Hujo et al. 2004.

² MTSS 2003; Lo Vuolo 2008; Mesa-Lago 2009a.

politically possible because transition costs related to pension privatization had declined substantially, while public revenues from mineral production boomed. In Argentina, the reform was a response to the impact of the financial crisis on pension funds, the estimated current and future fiscal costs of the privatized pension system, as well as the immediate benefit of channelling accumulated funds into public coffers in order to finance economic stimulus measures as a response to the global financial crisis in 2008.

In this paper, we aim to analyse and evaluate the last pension reforms in Chile and Argentina against the historical context of neoliberal pension reform in the 1980s and 1990s. We examine three main aspects of the “re-reforms”. First, using a political economy and comparative approach we study the policy-making process of the reforms in both countries. Second, we conduct a preliminary assessment of the economic and social impact of the reforms. And third, we draw lessons from the Argentinian and Chilean experience on re-reforming privatized pension systems in terms of relevance of specific political constellations, economic and social implications and future sustainability.³

The paper is organized in three sections. We first discuss structural pension reforms implemented in Latin America during the 1980s and 1990s with a special focus on Chile and Argentina, whose pension reforms were considered models in the region and beyond. We then analyse the political process of the recent reforms in Chile and Argentina, in particular the influence of past institutional legacies, the reform context, relevant actors and their strategies, in order to understand the different reform outcomes. We then conduct a comparative evaluation of the economic impact of the new pension systems (regarding fiscal sustainability, investment and employment), and a comparative analysis of the social impact of the new pension systems (regarding coverage and adequacy, gender equity, social solidarity and participation). Last, we summarize findings and policy lessons emerging from the two case studies.

The Structural Reforms in Latin America

The privatization of the Chilean pension system in 1981, by that time considered to be an exceptional neoliberal experiment implemented by an authoritarian regime, became a role model and mainstream policy advice for pension reforms in the 1990s (Hujo forthcoming). Based on the recommendations of the Washington consensus (Williamson 1990) and international credit agencies such as the World Bank (World Bank 1994), several countries in Latin America implemented multi-pillar pension systems with mandatory individual savings managed by private companies, invested in different financial instruments and transformed into annuities or programmed withdrawals upon retirement as the main source of old-age income. By 2008, 13 countries—more than half the countries in South and Central America—had reformed their pension systems: Chile (1981), Peru (1993), Argentina and Colombia (1994), Uruguay (1996), Bolivia and Mexico (1997), El Salvador (1998), Costa Rica (2001), Nicaragua, Ecuador and the Dominican Republic (2003), and Panama (2008).⁴ Interestingly, the Chilean model

³ In terms of methodology, this paper draws on the available literature, policy documents and selected interviews (list in annex) and analyses available data from national and international agencies. We thank several external reviewers for their valuable comments.

⁴ According to Mesa-Lago 2009b, Ecuador and Nicaragua had structural reforms in the early 2000s that were subsequently declared unconstitutional (in Nicaragua because of estimated fiscal costs of transition) and annulled in 2005, see also Mesa-Lago (2012a).

extended beyond the Latin American region, influencing reforms in several countries of Eastern Europe (Müller 2003), Asia (Fang forthcoming), and sub-Saharan Africa.⁵

According to Mesa-Lago (2001, 2004) reform models implemented in the region in the 1990s and 2000s can be classified into three reform types: the substitutive, the parallel and the mixed model (table 1). The substitutive model is closest to the Chilean one and involves the removal or closure of the public system and the substitution by a private system of individual accounts. The parallel model maintains a public system and creates an alternative private scheme based on IFF accounts, which competes with the public one. Finally, the mixed model provides a basic pension (first pillar) combined with a private system based on IFF accounts that offers a supplementary pension (second pillar). As can be seen, the “new pension orthodoxy” (Lo Vuolo 1996), though highly influential, did not result in a single model, but in different adaptations of the Chilean example, reflecting diverse contexts and historical legacies (Mesa-Lago and Müller 2002, 2004).

**Table 1: Typology of structural pension reforms in Latin America
(according to Mesa-Lago)**

Model	Countries	System
Substitutive	Chile (1981), Bolivia (1997), Mexico (1997), El Salvador (1998), Nicaragua (2003), Dominican Republic (2003)	Private
Parallel	Peru (1993), Colombia (1994)	Public or Private
Mixed	Argentina (1993), Uruguay (1996), Costa Rica (2001), Ecuador (2003)	Public and Private

Source: Authors' elaboration based on Mesa-Lago (2004).

The politics behind structural reforms in Latin America were complex and variegated. Some reforms, for example in Chile and Peru, were implemented top-down by non-democratic governments, while in other cases long negotiations and extensive debates, for example in Argentina and Uruguay, led to the reform outcome of mixed models reflecting compromises between different actors and interests.

An extensive literature has developed on the political economy of policy reform, with a specific focus on market-oriented reforms such as pension privatization.⁶ Authors have identified preceding crises, strong leaders and change teams, specific reform strategies and timing as being instrumental for structural reforms.⁷ They have further identified a variety of internal country characteristics, such as the political system, including political institutions, electoral and party system and institutional veto points; and external factors such as the international or regional transmission of reform ideas, the role of international financial institutions (IFIs) as catalysts for reform because of their role as creditors and ability to impose policy conditionalities; and the signalling effect of market reforms with potentially positive effects on government's credibility vis-à-vis investors.

⁵ Casey 2011; Lewis and Lloyd-Sherlock 2009; Orszag and Stiglitz 2001, Orenstein 2008; Hendricks 2014.

⁶ Hujo forthcoming; Hujo and Cook 2012; Maldonado Valera and Palma Roco 2012; Müller 2003.

⁷ See the excellent overview on the debate in Müller (2003).

Based on nine cases of reforms, Mesa-Lago and Müller (2002, 2004) analyse the politics of structural reforms in Latin America to explain the differences in the models adopted. Their key findings suggest that while there is an inverse relationship between levels of democratization and privatization, the type of political regime cannot fully explain the results of reform in all cases. This requires a comparative analysis of the domestic political process that includes an analysis of the actors and political and economic factors that facilitated or hindered the adoption of structural reforms.⁸ According to Mesa-Lago and Müller (2002:715) the main actors and driving forces behind the reforms were neoliberal economists in the ministries of finance, IFIs, employers' organizations and the financial sector. On the other hand, the opposing actors were Left-wing political parties, the social security bureaucracy, trade unions and pensioners' associations. In terms of economic conditions that drove reforms, the fiscal crisis of the public pension systems and high indebtedness with the IFIs stand out.⁹ Reformers further argued that privatization would increase national savings and promote financial sector and capital market development. The political capacity of the different actors to push or obstruct reforms was shaped by existing institutional arrangements and political factors, such as the executive's degree of control over parliament, the relationship between trade unions and the government, or the use of semi-direct democratic mechanisms such as public referendums.¹⁰

The following section describes pension privatization and its impact in Chile and Argentina.

Chile (1981): A radical reform in an authoritarian context

In the 1970s, Chile had one of the most developed and comprehensive pension systems in the region, which suffered, however, from high costs, fragmentation and inequities (Mesa-Lago 1978; Maldonado Valera and Palma Roco 2013). The Chilean pension reform of 1981 completely replaced the historical PAYG scheme¹¹ with a new pension system based on individual capitalization accounts and private management, and transformed a system based on a DB scheme into a DC one. Financial management of the newly created pension accounts was given to the private sector, the so-called Pension Fund Administrators (Administradora de Fondos de Pensiones/AFP), which in turn were supervised and regulated by a public agency, Superintendency of Pension Fund Administrators (Superintendencia de Administradoras de Fondos de Pensiones/SAFP). Mandatory private accounts were complemented by a first pillar in form of a minimum pension guarantee after 20 contribution years, and a third pillar for voluntary savings. In addition, a non-contributory system of social pensions (Pensiones Asistenciales/PASIS) existed since 1975, paying tax-financed transfers to poor older persons without insurance coverage. The reform was implemented in a context of harsh restrictions of civil and political rights in which political parties and unions were dissolved and their political

⁸ See also Madrid (2002, 2005); Müller (2003); Weyland (2005); Brooks (2007); Kay and Sinha (2007).

⁹ Brooks (2009) argues that globalization, or dependence on foreign capital imports (high public debt to GDP ratios), has obstructed rather than facilitated pension privatization, as countries are reluctant to incur high fiscal transition costs associated with the introduction of IFF pension funds (especially if implicit pension debt is high and ageing advanced). Madrid (2003), Hujo (2004a, 2004b) and Orenstein (2008) consider IFIs to have a stronger influence in countries which are dependent on multilateral and private capital inflows. See Hujo (forthcoming) for further discussions.

¹⁰ See, for example, the case of Uruguay, where the government organized a referendum on different issues related to pension reform (Noya 1998).

¹¹ It was a civil system only because the military which propelled the reforms was excluded from it. The military had separate schemes with higher benefits, largely financed by public funds.

power and the capacity to oppose the pension reform were severely undermined (Mesa-Lago and Müller 2002).¹²

With regard to social impacts of the reform, the biggest disappointment was the evolution of coverage rates, which remained below the levels achieved prior to 1981, with voluntary affiliation of self-employed workers only reaching 5 per cent (Mesa-Lago 2009b). According to Uthoff (2011), before the 2008 reform, only 45 per cent of the population could finance a pension out of accumulated savings in their AFP account and only 5 per cent had access to a minimum pension guaranteed by the state.¹³ The remaining half of those insured did not have any certainty about their income in old age, and even those that were entitled to a pension had to shoulder risks associated with volatility of financial and capital markets where pensions were invested. Those that were not covered by pension insurance at all or did not reach the minimum requirements had to rely on social assistance pensions (PASIS), covering 2.3 per cent of the population or 358,813 persons in 2000/2001, a number that increased to almost half a million persons in 2008. The social pension benefit amounted to approximately 50 per cent of the guaranteed minimum pension, with a total cost of 0.38 per cent of GDP in 2000/2001 (Bertranou et al. 2002; Arenas de Mesa 1999).

In addition, by excluding the armed forces and the police from the reform, there was no equal treatment between different groups of the insured. Other horizontal inequities concerned women, as the individual account system removed redistribution between men and women, reinforcing biological gender inequalities (such as lower pensions because of longer life expectancy) and those created by the labour market (such as lower pensions because of lower salaries and interrupted working careers) (Mesa-Lago 2009b; Arza 2012a).

Although supposed to contribute to healthier fiscal accounts in the long term, the economic costs of pension privatization in Chile have been very high for the state. The transition from a public PAYG system to a private IFF scheme created a budget deficit of approximately 2.5 per cent of GDP for over 25 years, amounting to 5.7 per cent of GDP per year on average between 1981 and 1998. In 2010, fiscal costs of privatization still amounted to 4.7 per cent of GDP (Mesa-Lago 2012b:208). The expected positive indirect economic effects of the reform on the development and strengthening of capital markets, savings, investment and growth, however, remain ambiguous (Uthoff 2008).¹⁴

Finally, the supposed higher efficiency of fund management by the private sector was not reflected in lower administrative and group insurance fees for AFP affiliates if compared with the former public system, with negative effects on pension benefit levels and replacement rates (Mesa-Lago 2009b).

¹² For more information about the Chilean reform in 1981, see Arenas de Mesa and Mesa-Lago (2006); Arenas de Mesa and Gumucio (2000); Arenas de Mesa and Sánchez (2001); Borzutzky (1983, 2002); and Uthoff (1995).

¹³ In order to qualify for the minimum pension guarantee, affiliates have to contribute for at least 20 years and reach the retirement age of 65. Then the state would top up any pension below the minimum threshold (higher amounts for aged above 70 and 75). The amount of the minimum pension in 2012 was Chilean pesos (CLP) 122,305 (USD 252) for the elderly above 70; in March 2008, approximately 93,000 benefits were paid at a cost of USD 13.7 million (Berstein et al. 2009), see www.suseso.cl, accessed on 12 December 2013.

¹⁴ Some studies report evidence on the positive macroeconomic effects of the reform, see, for example, the influential paper by Corbo and Schmidt-Hebbel (2003).

Argentina (1994): Pension reform in the context of neoliberal transformation

One decade after the Chilean pension reform, Argentina embarked on a new development strategy firmly grounded in the principles of the Washington consensus. Monetary stabilization, liberalization of goods and financial markets as well as deregulation of markets and public services, and privatization of state enterprises, were the cornerstones of the new economic policy. Soon after the launch of the convertibility plan—a currency board model that anchored the Argentinean currency to the US dollar from 1991–2001—discussions started on the planned structural reform of the public pension system, which by the time was in a deep crisis and promised to threaten the overall macroeconomic strategy (Isuani and San Martino 1995; Bertranou et al. 2011). After two years of debate, a new pension system was implemented in 1994, combining a reformed public pension scheme with IFF pension accounts modelled after the Chilean example.

The mixed system differed from the Chilean precedent on several accounts (Hujo 1999): (i) rather than substituting the old PAYG system, the Argentinean scheme offered the possibility of choosing between a public PAYG-financed DB scheme (consisting of a flat rate basic pension and a earnings-related component) and a mixed option combining a public DB (the basic pension), with a IFF pillar (therefore it has also been categorized as a parallel system); (ii) the mixed scheme maintained employers' contributions financing the basic pension for the insured having contributed for at least 30 years; (iii) the self-employed were mandatorily insured,¹⁵ and (iv) public as well as non-profit institutions were authorized to create pension fund administrators (Administradoras de Fondos de Jubilaciones y Pensiones/AFJP).

Despite these differences, the Argentinean reform showed important similarities to the Chilean case. First, the Carlos Menem government in Argentina, voted democratically, was extraordinarily powerful during its first election term (1989–1995), with broad support from trade unions and business as well as external donors, majorities in the senate and congress, and control of the judicial system. Second, both countries combined pension reform with economic policy goals: Chile by transferring the neoliberal doctrine of the “Chicago boys” to social policy and Argentina by supporting the convertibility plan through fiscal savings, a stronger financial system and by offsetting adverse effects of the overvalued exchange rate through reduction of labour costs (reduction of social security contributions) and capital exports of pension funds (Hujo 2004a). Reformers in both countries expected positive effects of pension privatization for national savings rates, investment and growth, and higher incentives to contribute to pension insurance motivated by private ownership and less redistribution (a stronger contribution-benefit link) within the system. Third, both countries combined cost-saving parametric reforms such as increases in vesting periods (in Argentina from 20 to 30 years) and retirement ages (plus five years) and changes in benefit calculation formula with the introduction of private savings accounts. And finally, both countries left their tax-financed non-contributory pension schemes targeted at the poor elderly untouched.

¹⁵ The self-employed were already mandated to contribute to the public pension system before the creation of the multi-pillar system. In Chile, they could participate on a voluntary basis.

As happened in Chile, it soon became apparent that the reformed system did not live up to expectations: transition costs ranged between 1 and 4 per cent of GDP annually between 1995–2001 (Hujo 2004b) and despite being lower than in Chile (this was owed to the reform model, which kept employers' contributions to finance a basic pension and offered the option of remaining in the public scheme), proved to be too high given the restrictive context of the currency board;¹⁶ coverage rates, which in the past had been among the highest in the region, declined mainly because of problems with compliance with increased contribution requirements in a labour market characterized by rising unemployment and informality; inequities within the system persisted (several groups of those insured continued with separate schemes) and increased with regard to gender (Arza 2012a) as well as between former and future pensioners; and finally micro- and macroeconomic effects of the reform did not match expectations, as could be seen in high operational costs¹⁷ and market concentration as well as negative impacts on savings rates (in particular public savings) and macroeconomic stability (see table 2).

Table 2: Performance of private pension schemes: Argentina and Chile compared

Indicator	Argentina	Chile
Affiliation		
• Number of insured persons contributing to pension funds (2008)	11,669,822	7,851,232
Effective rate of contributors (2008) in per cent of affiliates	37.9	54.3
Market structure of AFPs/AFJPs (2008)		
• Number of administrators	11	5
• Concentration (per cent of funds in two biggest)	36.4	55.1
• Administration costs per cent of total contributions (per person insured in USD)	14.2 (USD 42.6)	6.6 (USD 46.5)
Volume of funds (2008), million USD	32,881	105,907
• In per cent of GDP	11.8	65.1
Average real rate of return over lifetime of scheme	8.4	9.2
• Last 12 months (2010)	–	12.0
• June 2007-June 2008	–8.7	–5.0
Investment portfolio (2008)		
• Public securities	56.2	8.8
• Financial institutions	5.8	28.3
• Stocks	12.5	14.7
• Foreign stocks and securities	8.9	36.4

Source: AIOS 2010, 2008.

¹⁶ Hujo (2004b: table 4) estimates the accumulated pension deficit consisting of lost contributions and interest costs to reach 16.7 per cent of GDP in 2001; according to Arza (2008), the primary pension deficit reached a peak of 4.6 per cent of GDP in 2001, with an average of 3.7 per cent between 1994–2005. Other estimations calculated the transition deficit to last until 2030, with average annual costs of 1.2 per cent of GDP (not including interest costs for public debt); see Bertranou et al. 2000.

¹⁷ Administrative costs ranged between 15.6 and 37.8 per cent of revenues in the private pension fund industry (1995–2007), whereas these costs were only 1.4 to 2.4 per cent in the public pillar. A reform in 2006 introduced a cap on administrative fees of 1 per cent of taxable income, see Arza (2008).

The situation was severely aggravated as a consequence of the Argentinean economic crisis in 2001, which led to sovereign debt default and exit from the dollar parity. Pension funds lost a significant part of their real value through conversion of funds into national currency and plummeting prices in national bond and stock markets. Future benefits were likely to be negatively affected also because of temporary reductions in contribution rates (to stimulate domestic demand and employment creation) and a lack of indexation mechanisms in a context of rising inflation (Hujo 2004b; Goldberg and Lo Vuolo 2006).

Bringing the State Back In: The Re-Reform in Chile and Argentina

The changing international context and social policy reform

If the 1990s have been the decade of unfettered market liberalism, with social sector reforms being largely considered as part of structural adjustment efforts aiming at greater economic efficiency, the new millennium has been marked by more visible efforts to combat poverty and rising inequalities, and more generally, to refocus on the social dimensions of development (UNRISD 2010). Although this process has been uneven and often grounded in narrow interpretations of social policy (targeting the poor), some countries have made significant progress in extending benefits to hitherto excluded segments of the population. In several Latin American countries, reorientations of policies toward such extension of benefits were supported by a number of factors. These include political changes toward the centre-Left (Quiroga et al. 2009), the international agenda of the Millennium Development Goals (MDGs) with their focus on poverty reduction and improvement of social indicators, and a favourable world economy before the outbreak of the financial crisis of 2008 leading to enhanced fiscal space and a positive growth performance in the majority of the countries in the region (especially those benefitting from rising commodity prices). In this context, while the instrument of conditional cash transfers for poor families with children clearly dominated policy debates worldwide, several governments also started to reform their pension systems with the aim to improve coverage and equity. This was often pursued by expanding or introducing social pension schemes, for example in Argentina, Bolivia, Chile, Mexico and Peru (Hujo and Cook 2012). In Chile and Argentina, pension reform¹⁸ was one of several social protection reforms aiming to support the unemployed, poor families with children, to extend health insurance and access to social services, and which, although not necessarily articulated between each other, shared the common goal of increasing equity and social inclusion.¹⁹

The following section describes the main reform measures implemented in Chile and Argentina in 2008 and analyses the political reform process. In doing so, it pays attention to the general political and economic context that prevailed at the time of reform, the past legacies in terms of pension policy and related policy areas (such as fiscal or financial sector policies), the process of problem analysis and formulation of reform objectives, the reform actors and their coalitions and strategies, the timing of reform, use of specific legal

¹⁸ In the case of Argentina, pension reform refers to the 2003–2005 reform process that includes (i) the Moratoria Plan, (ii) the Early Retirement Plan, (iii) the Free Option Act and (iv) the nationalization of the private pillar; in the case of Chile it refers to the 2008 reform.

¹⁹ Robles 2011; Repetto and Potenza 2011; Bertranou 2010.

and institutional instruments (such as expert commissions), type of consensus building, and reform outcomes.

Comparative analysis of the political process of the reforms and the new pension systems

Pension systems are designed to last for long periods, which requires sound planning, accountable and stable institutions, and reforms that are based on a broad social and political consensus. These requirements are reflected in basic social insurance principles which guide policies in this area: International Labour Organization (ILO) norms and conventions (in particular, convention No. 102 and the Decent Work programme, see ILO 1999) establish the social dialogue principle²⁰ which lays out that any pension reform should be preceded by a debate involving all social partners and key political actors. Notwithstanding, most of the privatization reforms in Latin America during the 1980s and 1990s were implemented without a broad social dialogue, with reforms in Chile, El Salvador and Peru being based on executive decrees, not on laws.²¹

In 2008 in Chile and Argentina, the governments initiated and pushed the reforms. In the context of the 2008 reform, president Michelle Bachelet promoted a broad social and political debate, which was widely applauded and considered clear proof of Chile's democratic consolidation.²² The process was in harsh contrast with the 1981 reform which had been implemented top-down by an authoritarian regime and not representative of any social or political consensus. In Argentina, the government headed by Cristina Fernández de Kirchner carried out the reforms through a combination of decrees and laws (see table 3) and without a significant public discussion or political negotiations in Congress. As a result of the reform process in Chile, the AFP system was not substantially changed, as key reform actors considered it to function considerably well and to impact positively on the Chilean economy (Consejo Asesor Presidencial 2006). In terms of reform outcomes in Argentina, the former system was radically transformed through re-nationalization. The following sections will look into these reform processes more in detail.²³

Chile

In Chile, since the transition to democracy in 1990, pension reform—especially reform of the non-contributory component—was considered one of the outstanding debts of the governing centre-Left coalition (2000–2010).²⁴ While for three consecutive electoral terms this coalition had embarked on several major social reforms (such as education, health, unemployment, social assistance), reform of the private pension system, which had left many persons uncovered and reduced redistribution and individualized risks to a significant extent, remained a pending issue and constituted a key electoral promise of Bachelet's presidential campaign (Maldonado Varela and Palma Roca 2013). The goal to re-establish a social contract between citizens and the state and to forge a new consensus

²⁰ The ILO's principles include universal coverage, equal treatment, social solidarity, gender equality, sufficiency of benefits, public regulation and supervision, reasonable administrative cost, social participation in management and long-term financial-actuarial sustainability (Mesa-Lago, 2009b:603).

²¹ Chile Decreto Ley No. 3500 (1980); El Salvador Decreto No. 927 (1996); Peru Decreto Ley No. 25897 (1992).

²² See OIT (2010); Arenas de Mesa (2010); Maldonado Valera and Palma Roca (2013).

²³ For an overview on the two re-reforms, see tables A.1 and A.2 in the appendix.

²⁴ The Socialist Party ruled in Chile between 2000 and 2010: Ricardo Lagos Escobar (2000–2006) and Michelle Bachelet Jeria (2006–2010).

on the Chilean pension system was considered a top priority of Bachelet's government assuming office in 2006,²⁵ and the 2008 reform is viewed as an important, if not her most important, contribution to improve social development in Chile.²⁶

In March 2006, six days after gaining office, Bachelet created a presidential committee of experts—named the Presidential Advisory Council for Pension Reform, also known as Marcel Commission—to elaborate a report with recommendations for the drafting of a pension reform project (Mesa-Lago 2009b; Arenas de Mesa 2010). This commission carried out public hearings over a period of three months in which a broad range of political and social actors presented their reform proposals.²⁷ A great majority of the recommendations of the commission were included in the law project (Mesa-Lago 2009b; Iglesias-Palau 2009) and the reform bill was discussed in Congress during 2007 and approved in January 2008. The first benefits under the new system were paid in July 2008 (see box 1).

Box 1: Chronology of Chilean pension reform, 2005–2008

Election of Michelle Bachelet Jeria, 15 January 2006
 Government takes office, 11 March 2006
 Creation of Expert Commission, 17 March 2006
 Submission of Commission Report, 6 July 2006
 Creation of Committee of Ministers, 13 July 2006
 Presentation of Law Project in Congress, 19 December 2006
 Approval in Chamber of Deputies, 29 August 2007
 Approval in Senate, 9 January 2008
 Promulgation of Law No. 20.255, 11 March 2008
 Payment of first benefits, July 2008

Source: Based on Maldonado Varela and Palma Roca (2013).

According to Rofman et al. (2008), the primary motivation and justification for the reform was coverage expansion, which was driven by a number of factors. First, and as mentioned before, it was becoming increasingly clear that, due to low and interrupted contribution payments,²⁸ large parts of the population (55 per cent) would neither receive sufficient pensions nor qualify for the state minimum pension guarantee. The minimum pension was only granted after 20 years of contribution payments and merely covered around five per cent of the population (Uthoff 2011). The second important factor that facilitated the reform was fiscal space: 25 years after privatization, transition costs had decreased significantly and freed up resources, which was further supported by a positive fiscal balance (among other reasons due to booming copper prices, copper being one of the most important revenue sources of the Chilean budget) and declining public debt (Iglesias-Palau 2009). Third, there was a growing consensus on several market failures associated with the AFP system, such as concentration and lack of competition in pricing. This led to extraordinary profits in the sector, while the high administration fees reduced

²⁵ Uthoff 2008; Rofman et al. 2008; OIT 2010; Arenas de Mesa 2010; Maldonado Valera and Palma Roca 2013.

²⁶ Rofman et al. 2008; OIT 2010; Délano 2010; Arenas de Mesa 2010.

²⁷ A total of 242 people from 73 organizations presented their proposals: 33 were from unions and social organizations, 24 were corporative and industry organizations, six from international organizations and 10 from universities and think tanks; see Maldonado Varela and Palma Roca (2013).

²⁸ It has also to be noted that contribution rates in Chile were comparatively low after the elimination of the employer's rate in the 1981 reform, amounting to 13.2 per cent of wages, with 3.2 per cent for collective insurance and administrative costs. This has to be compared with a total contribution rate of 27 per cent in Argentina, although ad hoc reductions of rates as part of economic stimulus policies in Argentina were common.

future pensions. Fourth, reformers aimed at increasing both gender equity and inclusion of independent and young workers into the system.

Although the 2008 reform did not change the basic structure of the pension system, which is still based on IFF accounts managed by private companies, it was the first more substantive modification to the model that had guided pension reform in Latin America and beyond. The new system expanded the role of the state in social protection by creating a New Solidarity Pillar (Sistema de Pensiones Solidarias/SPS). It provides a Basic Solidarity Pension (Pensión Básica Solidaria/PBS) to individuals with no pension earnings as well as a Pension Solidarity Complement (Aporte Previsional Solidario/APS) that tops up pensions which are below a defined maximum threshold (of approximately USD 500). The reform further stipulated compulsory contributions from self-employed workers into the AFP system and granted a state subsidy to low-income young workers during the first two years of their employment.

The second main motivation for reform was to increase gender equity in the system (Staab 2012; Yáñez 2010). This was done by introducing a bonus for every child (Bono por Hijo) granted to mothers and paid into their AFP account (equivalent to 18 months of contributions at the minimum wage plus interest); the option to split up to 50 per cent of accumulated savings between partners in case of divorce; the introduction of an additional payment into AFP accounts compensating women for their lower risk with regard to disability and survivorship insurance; and equal treatment of men and women in the pension system with regard to protection of survivors, as women could now leave their pensions to their surviving spouses in case of death, which had not been possible before the reform (Rofman et al. 2008; Bernstein et al. 2009).

Some other reform measures were targeted at a better functioning of the AFP system. The reform established a new bidding process regarding new affiliates to encourage price competition in the market (the AFP charging the lowest fees is assigned all new affiliates over two years) and introduced a more flexible and transparent investment regime (Rofman et al. 2008). Finally, the reform included the creation of a new institutional framework for social security to promote broad social participation.

Argentina

In Argentina, according to Arza (2012b), the combination of economic crisis in 2001 which put an end to the Argentinian currency board initiated in 1991, the change in government and the evidence on the shortcomings of the private pillar, opened a window of opportunity for reform. Once the economy had recovered from the deep crisis that had led to state bankruptcy in 2001, in particular from 2005 onwards, several pension policies were implemented to strengthen the public component of the mixed system, culminating in the complete elimination of the private pillar in 2008 in a context of a severe global financial crisis.

After the structural reform in 1994—and in particular after the 2001 crisis—successive governments, and a range of social and political actors including national and international academics, criticized the shortcomings of the new multi-pillar pension system, which as outlined in the previous section, were identified as high fiscal transition costs, declining coverage, and multiple inequities and inefficiencies.

Although the 2008 reform was based on a profound critique of the private system, the political process leading to the reform was the result of a closed-door process and few—if any—opportunities for participation of different actors were offered. In 2000, a report written by the Ministry of Social Development argued that the most critical problem of the system was declining coverage (Secretaría de la Tercera Edad 2000, cited in Rofman et al. 2008). In 2002, the government through the Social Security Secretary organized a consultative process with experts, representatives of interest groups and government officials, inviting two missions of the ILO (Mesa-Lago 2009a). As a result of this consultative process the *White Book on Social Security* was published (MTSS 2003). This book contained advice and recommendations defining a medium-term strategy for pension policy in the post-convertibility era. However, the reform process in 2008 did not take into account the policies recommended in the report (Mesa-Lago 2009a). In addition, several public debates around pension reform took place and legislators of different parties introduced several bills in Congress, though without concrete results until 2005.

During the period 2003–2008, the Peronist governments under Nestor Kirchner and Cristina Fernández de Kirchner implemented several reforms to the pension system with the objective to strengthen the public pillar and to expand coverage (see table 3).

Table 3: Argentinean pension reforms, 2003–2008

Objective	Reform	Legal basis
Increase access and coverage of the system	Moratoria Plan	25865/03 Act.
		164/04 Dec.
		1454/05 Dec.
	Early Retirement Plan	25994/04 Act
Reductions of the private pillar Elimination of private pension funds	Free Option	26.222/07 Act
	Nationalization	26.425/08 Act

Source: Authors.

First, in 2003, the government eliminated the quotas limiting the number of non-contributory pensions, which hitherto had constituted a safety net for older persons who would not comply with the requirements of the formal pension scheme or did not accumulate sufficient private savings: in 2001, approximately 350,000 persons received a social pension, with an average monthly benefit of USD 153; this number increased to 1.1 million beneficiaries in 2010 (Bertranou et al. 2011).

Second, between 2004 and 2005 the Moratoria Plan and the Early Retirement Plan made pension benefits available for those individuals which had reached the minimum retirement age but did not fulfil the minimum contribution period of 30 years for receipt of the flat basic pension. They were allowed to join a payment plan to cancel past contributions for work periods before 1993 and to cancel their contribution debts, and

were immediately entitled to receive pension benefits (reduced by the amount of monthly debt cancelation) and health insurance. The government also established an early retirement option with reduced benefits for those individuals with less than five years before reaching retirement age.

Third, affiliates in the private pillar above age 50/55 (women/men) with accumulated funds below Argentinian peso (ARS) 20,000 in their accounts were shifted to the public system, whereas all those insured regained the option to switch back to the public system every five years. In total, around 2.5 million affiliates (21 per cent of total affiliates) of the AFJP system changed to the public system until early 2008 together with those who did not choose either system, and who were assigned by default to the public system (Rofman et al. 2010).²⁹ In addition, the special pension scheme for teachers, diplomats, researchers and the judiciary, which had existed before the 1994 privatization reform,³⁰ was reinstated and professionals belonging to these categories were transferred to the public system (Rofman et al. 2008).

The last reform in 2008 (26.425 Act) established the elimination and re-nationalization of the funded pension pillar. In December 2008, a reform was approved (implemented on 1.1.2009) that led to the elimination of the capitalization system based on individual pension accounts in AFJPs, through which all its contributors, beneficiaries and assets were transferred to the PAYG scheme (the combination of basic pension plus earnings-related benefit) now named Sistema Integrado Previsional Argentino (SIPA/Integrated Argentinian Pension System).

All reforms listed above were decided and implemented in a short time frame. The Early Retirement Act bill was discussed and passed within one day by Congress (on 16 December 2004). The 2007 reforms—related to the free option to shift between the private and public pillar—were announced by the government at the end of January 2007 and were passed by Congress within only one month, speeded up by the executive through extraordinary sessions. Similarly, the government project to re-nationalize the pension system was announced at the end of October 2008 and the new pension act was passed without major changes and approved in both chambers of Congress only a month later. The main actors concerned by the reform—such as AFJPs and pensioners' and workers' associations—had no time to react because they were taken by surprise by the measure and there was no scope for formal participation in the process. The president of the AFJPs' association, for example, learned about the reform from the newspapers,³¹ and the same happened to other high level politicians and stakeholders.³² This is in strong contrast with Chile, where there were clear announcements about reform objectives and the consultative reform process, and it called into question the credibility and sustainability of the new system.³³

²⁹ Before, the default option had been the private pillar.

³⁰ The special scheme offered more generous entitlement conditions such as a replacement rate of 82 per cent of reference salaries, which in the case of researchers was set at 85 per cent.

³¹ Interview with Sergio Palla, President of the AFJP association (Unión de AFJP). The press also reported complex linkages between pension fund administrators, financial sector and the state (nationalization was notably supported by the director of the state-owned Banco Nación, who was also president of the related AFJP Nación, see Clarin 2008) which seem to have impeded more radical opposition to the nationalization; see for example La Política Online (2008).

³² Interviews with different politicians (see list in annex).

³³ Rofman et al. 2008; Mesa-Lago 2009a; Lo Vuolo 2008; Bonelli 2008.

The next section evaluates the reform impact of the new reforms in Chile and Argentina on two key economic variables, fiscal sustainability and economic development.

Comparative evaluation of the economic impact of the new pension systems in Chile and Argentina

Fiscal sustainability

In Chile, the availability of fiscal space—Chile ran budget surpluses between 2001–2007 of 2.9 per cent on average and had reduced gross public debt to close to 5 per cent of GDP (Iglesias-Palau 2009) in combination with a sound financing strategy and the commitment of the Ministry of Finance through its Budget Office (Dirección de Presupuestos/DIPRES)—was crucial in obtaining broad support for a reform that was more expensive than any other social protection programme created by the successive governments of the Concertación between 1990 and 2010 (Arenas de Mesa 2010; Uthoff 2011). As shown in table 4, the fiscal costs associated with the reform will increase gradually from 0.28 per cent of GDP in 2009 to slightly over 1 per cent of GDP in 2025.³⁴

Table 4: Fiscal effects of the Chilean pension reform, 2009–2025
(per cent of GDP)

Year	Solidarity Pension System	Other benefits*	Total
2009	0.21	0.07	0.28
2012	0.54	0.16	0.70
2025	0.82	0.21	1.03

Notes: *Child bonus, subsidy for young workers and self-employed, incentives for voluntary savings etc. **Source:** Arenas de Mesa 2010.

The financing of the reform rests on three pillars (Uthoff 2011): first, the creation of a Pension Reserve Fund in 2006 as part of the Law on Fiscal Responsibility; second, the application of a new actuarial model based on micro data; and third, a new information system on pension data administered by the Pension Institute (Instituto de Previsión Social/IPS). All reform costs are financed out of the Pension Reserve Fund, and contingent fiscal liabilities arising from the system are calculated and published yearly by the Finance Ministry. In addition, every five years the Superintendency and the Budget Office commission an actuarial report estimating future benefits and fiscal obligations of the pension system.

In Argentina, fiscal obligations associated with the reform are less clear:³⁵ currently, there is a huge surplus in the pension programme as the public social security agency, ANSES (Administración Nacional de la Seguridad Social), has benefitted from the transfer of funds worth approximately USD 30,000 million that had been accumulated in AFJP accounts until October 2008. ANSES receives annual contribution flows of around USD 4,500 million from the newly incorporated 4.4 million affiliates, whereas 3.3 million were

³⁴ In the calculation of the fiscal reform costs it is assumed that the New Solidarity Pillar gradually substitutes the former social pension (Pensiones Asistenciales, PASIS) and the Minimum Pension Guarantee.

³⁵ Rofman et al. 2010; Mesa-Lago 2009b; Hohnerlein 2012.

already contributing in the public system. The Moratoria Plan, at the same time, implies significant fiscal costs, although due to the transitory nature of the plan the costs will diminish over the next 15 to 20 years. The positive impact of the transfer of funds from the private pillar will, however, be compensated by higher benefit payments of the SIPA when more pensioners start to retire under the public scheme (Rofman et al. 2010). The costs of the Moratoria Plan amounted to 27.5 per cent of total pension expenditures of ANSES in 2007 and increased to 35 per cent of total pension expenditures in 2010 (ANSES 2011b).

A further concern relates to the investment policy of the Guarantee Fund for Sustainability (Fondo de Garantía de Sustentabilidad/FGS), which has shifted objectives from seeking highest returns with lowest risks toward a stronger emphasis on economic development (see below). This shift has resulted in negative real capital returns in 2011 and 2012 (Hohnerlein 2012). According to Bertranou et al. (2011), based on the assumption that current system dependency ratios can be maintained, it will be possible to finance the earnings-related pension benefit *Prestación Adicional Por Permanencia* (PAP) (replacement rate of 45 per cent of the salary after 30 contribution years) out of contributions (23 per cent of the salary). The scenario for the basic pension, *Prestación Básica Universal* (PBU) is less clear, as it is financed through tax revenues and employer's contributions. Finally, there are no concrete estimations about future liabilities in terms of non-contributory or semi-contributory benefits such as the 1.1 million social pensions and the 2.4 million semi-contributory pensions granted through the Moratoria Plan.

Macroeconomic impact

The macroeconomic impact of pension systems goes beyond its fiscal impact: as laid out in Hujo (forthcoming), pension programmes which are well-designed and significant in scale can contribute to macroeconomic stabilization, investment, growth and employment. In the case of Argentina and Chile, macroeconomic impacts, both positive and negative, have been well analysed with regard to the multi-pillar pension systems established in 1981 and 1994 respectively. In the case of Chile, most of these impact channels continue to operate as the AFP system has been maintained and only complemented by extended non-contributory benefits, which should have a positive impact on demand stabilization, risk behaviour and the general investment climate. The different non-contributory and contributory benefits are designed to minimize any disincentive to contribute to the pension insurance scheme or to join the formal labour market. Positive impacts on compliance and formal employment rates are encouraged through the prospect of earning entitlements through contributions without imposing a minimum vesting period (as with the minimum pension guarantee in the past) in combination with special subsidies for difficult-to-cover groups such as women and young workers, as well as the mandatory coverage of self-employed (those subject to income tax regulation) and measures to verify contribution payments of employers. The reforms in terms of market competition and investment regime of pension funds aim to increase pensions and improve efficiency of savings' allocations by lowering costs and increasing investment returns. In general, while the macroeconomic impact of the Chilean AFP system has been discussed controversially over the past decades, a fundamental reform to the system was not considered, given the importance of pension funds in the national financial sector and Chile's insertion into global capital markets (Staab 2012; Ewig and Kay 2011).

In Argentina, the systemic re-reform in 2008 aimed to support the national economy in times of crisis and to protect future pensioners from the adverse effects of market volatility and severe crises in the financial sector.

The FGS of the Public PAYG system, later named Guarantee Fund for the Sustainability of the SIPA) had been already created in 2007, and managed and invested the increasing surplus of ANSES, and in 2008 it absorbed the accumulated pension savings resulting from the nationalization of AFJP accounts (ANSES 2011a). The original objectives were limited to the financial sustainability of the pension system. With the creation of the new system SIPA, economic development objectives were added to contribute to the development of the national economy and by extension to the sustainability of the pension system (Decree No. 2103/08, see Bertranou et al. 2011). Toward this, part of the funds from FGS (around 13 per cent in December 2012), whose accumulated funds equalized 50.6 per cent of GDP end 2012, are invested in infrastructure projects such as nuclear power centres and electricity plants, roads, trains, public housing and water supply. Positive multiplier effects are therefore expected regarding employment and public revenues such as taxes and social security contributions (Bertranou et al. 2011: Annex 11; ANSES 2013).³⁶ While it is difficult to measure the development impacts of the reformed pension system and their implications for future pensioners, it is clear that the complex relationships between social insurance and macroeconomic variables such as public finance and sovereign debt require further scrutiny. According to Datz (2012), ANSES and its financial arm, FSG, constitute a new institutional arrangement that allows financing the state with debt issued to public agencies (so-called intra-public sector debt), decreasing reliance on external sources of funding, but with uncertain effects for the credibility and viability of the Argentinian pension system (Datz 2012:121).

The next section evaluates social variables such as coverage, benefit adequacy, gender equity, social solidarity and equal treatment, and participation and accountability in the new pension systems.

Comparative evaluation of the social impact of the new pension systems in Chile and Argentina³⁷

Coverage

Recent reforms in Chile and Argentina have increased coverage rates in both countries (see table 5). In Argentina, this is mainly due to the pre-2008 reforms and a result of the Moratoria Plan providing benefits to approximately 2.3 million elderly persons who had not qualified for a pension before, and the tripling of non-contributory social pensions reaching 1.1 million beneficiaries in 2010 (Bertranou et al. 2011). In 2010, 42 per cent of benefits were allocated to the beneficiaries of the Moratoria Plan (ANSES 2011b). As a result, total coverage of adults above age 65 increased more than 20 per cent between 2005 and 2010, from 68.9 to 90.7 per cent, benefitting primarily women, elderly persons below 70, and those with lower educational status and income (Bertranou et al. 2011).

³⁶ According to the investment regulation of the FGS (ANSES 2011a), productive investment should be at least 5 per cent and not more than 20 per cent of the total fund. An updated list of FGS investments in productive projects and infrastructure and estimated employment and tax effects can be found on the ANSES website: <http://fgs.anses.gob.ar/inversion>, accessed on 16 December 2013.

³⁷ For an overview, see table 9.

With regard to coverage indicators of salaried workers, the proportion of wage earners contributing to pension insurance was 66.9 per cent in 2010, as compared to 52.8 per cent in 2004—which is still below pre-privatization levels of more than 70 per cent (Bertranou et al. 2011).

Chile performs better in terms of active contributors as a share of the labour force if compared to Argentina since the late 1980s. In terms of coverage of the elderly population through the contributory system, we observe a decrease over the last two decades, reflecting the difficulty of the private AFP system to maintain coverage rates reached under the former public system (see table 5).³⁸ In 2009, 60.71 per cent of the population above age 65 was receiving a pension benefit from the contributory system, and 26.7 per cent was receiving a non-contributory benefit (Rofman and Oliveri 2011). This reflects a total coverage rate of the elderly population that adds up to 87.41 per cent, which is close to the Argentinean level.

Table 5: Coverage rates in Chile and Argentina, 1987–2009 (*per cent*)

Year	Chile ^a beneficiaries +65	Argentina ^b beneficiaries +65	Chile contributors/ labour force	Argentina contributors/ labour force
1987	70.19	74.9	60.32	44.00
1990	73.04	75.06	62.21	—
1992	66.5	78.09	61.14	46.76
1994	68.21	77.6	62.26	45.45
1996	65.94	76.34	62.43	40.51
1998	62.17	73.38	58.90	41.09
2000	63.89	70.7	58.06	39.04
2003	63.89	68.64	58.74	33.40
2006	60.71	70.72	62.92	41.04
2009	57.23	90.08	73.12	45.68

Notes: ^a does not include non-contributory benefits. ^b does include non-contributory benefits. **Source:** Rofman and Olivieri 2011.

According to the schedule of the pension reform implemented in 2008, by the first of July 2011, 60 per cent of individuals belonging to households in the three lowest income quintiles were covered by the Basic Solidarity Pension (PBS) and the Solidarity Pension Contribution (APS) (table 6).

³⁸ Coverage rates of the public system in 1973 were 73 per cent, Mesa-Lago (2012b:table 1).

Table 6: Beneficiaries and benefits in the Chilean New Solidarity Pillar
(June 2011 and December 2012)

Number of beneficiaries of PBS	PBS old-age	Invalidity
Benefit per capita PBS, in CLP	406,674	215,712
	USD 76,622	USD 76,709
• Number as per cent of total pension benefits	35.2	
Number of beneficiaries of APS ^a	APS old-age	Invalidity
Benefit per capita APS, in CLP	384,846	20,080
	USD 63,613 (AFP)	USD 75,016 (AFP)
	USD 30,453 (IPS)	USD 45,363 (IPS)
Per cent of total pensions	23.7	
Total beneficiaries, PBS and APS	1,027,312	
Total beneficiaries, PBS and APS, December 2012	1,165,027	

Notes: ^a for pensioners financing a pension below maximum threshold of \$255,000. All data are for June 2011, except for last row.
Source: Superintendencia de Pensiones 2011; Consejo Consultivo Previsional 2013.

Benefit adequacy

With regard to benefit adequacy, the Argentinean reforms tackled some of the problems that emerged after the collapse of the convertibility plan in 2001, and left others unsolved. First, minimum benefits were increased to offset the effect of rising inflation on the poorest beneficiaries. Second, the benefit formula in the public pillar was modified leading to higher legal replacement rates for future pensioners. Third, an automatic indexation mechanism was introduced in 2008 that established two yearly adjustments based on an index combining evolution of wages and social security revenues (Rofman et al. 2010). As table 8 shows, the policies of increasing minimum benefits more than average benefits as well as the inclusion of large numbers of beneficiaries through the Moratoria Plan has led to a flattening of the benefit pyramid and reduction of average replacement rates. In 2010, non-contributory pensions represented 36 per cent of the average wage, and benefits in the contributory public scheme 55 per cent of the average wage (or 75 per cent in the case of pensioners not being part of the Moratoria Plan). In absolute terms, social pensions have increased significantly and amounted to approximately USD 225 (ARS 902) in 2010, with semi-contributory pensions (Moratoria Plan) being only slightly higher and SIPA contributory pensions reaching USD 468 on average (table 7). Legal replacement rates in the SIPA after 30 contribution years are a combination of the flat basic pension PBU (ARS 580, equivalent to USD 145 in 2011, 22 per cent of the average wage) and the earnings-related pension benefit, PAP.

Table 7: Evolution of pension benefits in Argentina, 2001–2010

Type of benefit	Monthly benefit in ARS ^a			As per cent of average taxable income of stable workers			As per cent of average salary		
	2001	2005	2010	2001	2005	2010	2001	2005	2010
Non-contributory pension	140	321	902	16	23	23	24	38	36
SIPA old-age pension	387	567	1379	44	41	35	67	68	55
Without moratoria			1872			48			75
With moratoria			1072			28			43
Total SIPA			1359	39	38	35	58	63	55

Notes: ^a The exchange rate in Argentina has become more volatile in recent years. While this table uses the 2010 exchange rate (ARS 4= USD 1.00), in December 2013 the official rate was ARS 6.27 = USD 1.00, while the non-official rate amounted to ARS 9.5 = USD 1.00.
Source: Based on Table 4.8 in Bertranou et al. (2011).

In Chile, the New Solidarity Pillar finances social pensions of around USD 150 per month for the PBS and lower amounts for the solidarity contribution APS, which tops up self-financed pensions which are below a maximum limit of approximately USD 500 (see table 6). Benefits are adjusted annually to changes in the price index.

Benefits paid out by the AFP system, which is a DC scheme, depend on accumulated funds net of fees and insurance costs plus investment returns, and the retirement option chosen.³⁹ In order to protect pension savings for those insured that are near retirement age, a system of multi-funds has been introduced before the 2008 reform, which offers different investment portfolios for the insured representing different yield-risk combinations (funds A and B are high yield-high risk, fund C intermediate, and funds D and E are low yield-risk). As the insured get older they are advised to shift their savings into the lower risk categories. Not surprisingly, the losses during the most recent global crisis were concentrated in the high risk portfolios (Mesa-Lago 2009b).

Important measures targeted at improving pension income for disadvantaged groups such as self-employed, young workers and women are the mandatory affiliation of self-employed, the subsidy for young workers and the Child Bonus for women.

Gender equity

Private pension systems deepen gender inequalities created by the labour market and through demographic differences (table 8). This is due to the fact that individual accounts impede the transfers of resources from men to women. Calvo et al. (2010) and Arza (2012a) have argued that gender issues were one of the reasons, among others, for the discontent with private pension systems in Latin America and that they led to certain reforms in some countries of the region. In Bolivia⁴⁰ and Chile, gender issues were part of the reform agenda, while the new Argentinean system has not adopted explicit measures to improve gender equality, although the reform generally benefits women more than men.

³⁹ In IFF pension systems, the insured have two basic options when reaching retirement: annuity versus programmed withdrawals; only the first option provides life-long payments and insures the longevity risk.

⁴⁰ For the Bolivian case see Arza (2012a) and Lloyd-Sherlock and Artaraz (forthcoming).

In Chile, both the coverage gap and gender inequalities are seen as important drivers that motivated the reform (Staab 2012). The new law includes four special innovations to increase gender equality in the pension system.⁴¹ First, the New Solidarity Pillar (which included, as mentioned above, the PBS and the APS) has been very important for closing gender gaps because non-contributory transfers benefit those who have spent periods out of work or in the informal sector, which holds true for a great majority of women in Chile. Second, a new child allowance (Bono por Hijo) has been introduced, which establishes that each woman receives a contribution for her pension per child born alive (also paid to current pensioners). Third, as mentioned before, men and women are now treated equally in terms of the survivor's pension and for the disability and survivorship insurance. And the last innovation stipulated that in case of divorce the savings accumulated during marriage may be redistributed to up to 50 per cent between spouses.

In Argentina, although reforms did not explicitly concentrate on gender issues and principles during political debates, some of them have important gender implications. The Moratoria Plan—which allowed people who did not have sufficient contribution records to access retirement pensions through participation in a payment plan to cancel their unpaid contributions—had a strong impact on coverage rates, benefitting primarily women and low-income earners (Bertranou et al. 2011). Since 2009 on, women have had higher coverage rates than men (table 8), and have benefited from increased pension levels (Bertranou et al. 2011). Furthermore, the return to the public PAYG system put an end to the gender bias associated with private capitalization schemes, such as mortality tables differentiated by sex. Beyond these improvements, gender equity is a pending problem in the Argentinean pension system, especially with regard to the uncertain future of non- and semi-contributory benefits (Arza 2012a; Mesa-Lago 2009a).

Table 8: Coverage rates 65+ by gender: Argentina and Chile
(Selected years)

Years	Chile		Argentina	
	Men	Women	Men	Women
1994	74.42	60.53	85.68	72.58
1996	78.43	60.38	85.24	70.55
1998	74.70	59.51	80.61	68.62
2000	69.08	57.01	74.88	68.01
2003	73.43	57.05	74.46	64.78
2006	72.91	57.14	75.48	67.57
2009	69.40	54.03	88.08	91.45
2010	64.14	52.05	87.46	92.37

Source: Authors' elaboration based on Rofman and Olivieri (2011).

⁴¹ Arza 2012a; Rofman et al. 2008; Staab 2012.

Social solidarity and equal treatment

Both reforms have improved social solidarity in their respective pension system. In Chile, tax revenues finance the Solidarity Pension Pillar benefitting the first three income quintiles. Solidarity between men and women has increased, as shown in the above table 8, as between younger and older generations through the subsidies for young workers. Risk distribution has improved through expansion of non-contributory pensions, as the insured do not rely solely on market insurance with regard to their income in old age, but benefit from stronger state guarantees.

In Argentina, the expansion of non-contributory and semi-contributory benefits has increased solidarity within the system, although it is not clear to what extent these tax-financed benefits will be continued in the future. In addition, the strengthening of public responsibility for old-age protection through re-nationalization can be seen as an attempt to permanently institutionalize redistribution and solidarity mechanisms (including protection against market risks) through the pension system.

In terms of equal treatment, neither of the reforms has solved the problem of parallel systems with different (usually more generous) rules and public subsidies such as for the military and police in both countries, and in Argentina with regard to specific professional groups and employees of provincial and municipal agencies (Mesa-Lago 2009b). In Argentina, there is an additional problem related to the differentiated adjustment of benefits during the period without clear indexation rules, which has resulted in unequal treatment of different groups of those insured (Arza 2012b).

Participation and accountability

The new pension system in Chile has created the AFP Users' Committee composed of representatives of workers, pensioners and administrators AFPs. This committee is responsible for evaluations, monitoring and proposing investments. The law also created the Pension Education Fund to share and disseminate information and educate the public. In contrast, the new system in Argentina did not implement any new social participation mechanisms in its administration (Mesa-Lago 2009b; Rofman et al. 2008).

There are also similarities and differences in terms of accountability and control of the systems. While both countries have eliminated the Superintendency of AFPs or AFJPs, in Argentina the law only established that the system will be administrated by the ANSES. ANSES has economic and financial autonomy and is supervised by a National Congress Bicameral Commission for Supervision of Social Security Funds but with no mandate or authority to enforce its decisions. In Chile, the law created a new Pension Superintendency to supervise and regulate the private and public system, strengthened the Sub-Secretariat of Pensions for advising the Ministry of Labour and Social Security, and created the IPS, which administers the New Solidarity Pillar (Mesa-Lago 2009b, Uthoff 2011).

Table 9: Comparative evaluation of 2008 pension reform in Chile and Argentina

	Chile	Argentina	
Reform initiative	Executive	Executive	
Social Dialogue in the reform process	Yes. Marcel Commission	No	
Economic Impact	Fiscal and financial sustainability	Sound and transparent fiscal basis Regular actuarial studies Financial market risks remain for funded pillar (improved governance: multi-funds, investment rules)	Fiscal basis in medium term secured, uncertain for the long term Financial market risk eliminated through return to PAYG-DB scheme
	Investment and employment	New investment rules for AFP system Incentives for formal employment improved	FSG invested in public infrastructure projects with positive effect on employment and revenues
	Market efficiency/administrative costs	Improved	Improved through return to public administration with lower costs
Social Impact	Coverage	Increased, target is universal coverage of 60 per cent poorest persons above age 65 through solidarity system (in addition to AFP system)	Increased, in particular through non-contributory and semi-contributory benefits (90 per cent of elderly above 65 received pension benefit 2010)
	Benefit adequacy	PBS Solidarity Pension USD 150 Pension Complement APS for pension <USD 500	In per cent of average wage Non-contributory: 36 (USD 225) Semi-contributory: 43 (USD 268) Contributory: 75 (USD 468)
		Inflation indexation	Indexation (inflation and revenues)
	Gender equality	Yes. (i) NSP; (ii) Bono Por Hijo; (iii) economic compensation in case of divorce or annulment (iv) separation of disability and survivorship insurance; (v) widow's pension	Not explicitly. Indirectly positive impacts through increase of non- and semi-contributory programmes, gender bias of IFF systems eliminated through return to PAYG system
	Social solidarity	Tax-financed benefits of New Solidarity Pillar	Redistributive elements through basic pension PBU, minimum pension (increased 62 per cent between 2001-2010), non-contributory pensions, Moratoria Plan

Institutional Features	Social Participation in the new system	Yes. AFP Users Committee and Pension Education Fund (not participation in the administration)	No
	Supervision, accountability	Pension Superintendency with executive powers	National Congress Bicameral Commission without decision mandate or executive powers.

Source: Authors' elaboration based on Mesa-Lago (2009b); Danani and Beccaria (2011).

Conclusions

The year 2008 has brought about a significant change in pension systems in two of the Latin American pioneers in social security systems, Argentina and Chile. After the two countries had implemented a major overhaul of their public pension insurance schemes by privatizing them in 1981 (Chile) and 1994 (Argentina), they have once more opted to implement radical reforms: Argentina by extending coverage of the public pension system through the policy of pension inclusion and eliminating the system of privately administered pension funds, and Chile by guaranteeing basic pension benefits for two-thirds of the population and by strengthening equity and competition in the AFP system. In Chile, the private pension model was not in question—the objective of the 2008 reform was to move the Chilean model toward a mixed model by strengthening the poverty prevention pillar (Bertranou et al. 2011). In Argentina, the private system that was introduced in 1994 was never as accepted as in the neighbouring country and a general preference for public pension insurance and public guarantees remained strong.⁴² In combination with specific features of the current political constellation (in particular the strength of the executive, lack of veto points for proponents of the private system in combination with mixed loyalties of some of these actors, timing and implementation of the reform), this might explain why the government was able to dismantle the private system without much resistance.

This paper has analysed the context and process of the reforms, and presented some preliminary evidence on economic and social impact. This conclusion summarizes lessons and draws out the remaining challenges the two countries might face in the future.

Lessons from the political economy of reform

The latest Chilean reform process is considered a good practice (Délano 2010) because it is built on the principle of social dialogue and established a broad consensus around reform needs and options. It was further based on extensive research, technical reports and studies by experts, and was organized as a transparent, planned and structured process in response to a key electoral promise of the incoming Bachelet government. Finally, it benefited from strong leadership and constructive collaboration between different stakeholders involved in the reform process and created innovative institutions and regulations to guarantee the implementation and monitoring of the reform. One of the protagonists of the reform, Alberto Arenas de Mesa, Director of the Budget Office during the Bachelet government and a well-known pension expert and responsible for the financial sustainability of the reform, summarizes the political economy lessons of the Chilean reform as follows (Arenas de Mesa 2010):

- i. public policy reforms have to be processed in a simultaneous way rather than strict sequencing, with a clear initial vision about key objectives and potential solutions and alternatives;
- ii. structural reforms need to be accompanied by a modernization of the state in terms of institutional reforms and new information and communication technologies;
- iii. the reform has contributed to overcome the myth that less state is always better and advanced the understanding that the state is indispensable for promoting social security;

⁴² Arza 2012b; Datz 2012; Lo Vuolo 2008; Hohnerlein 2012.

- iv. the reform has shown that reform teams consisting of experts have to be constituted working in close collaboration with leading decision makers (such as President Bachelet in the case of Chile) and key ministries (such as the Ministry of Labour and the Ministry of Finance, which in the case of Chile has been supportive of the reform).

Based on an extensive consultation of key reform protagonists, Délano (2010) draws lessons emerging from the Chilean reform process emphasizing strong consensus-oriented leadership at different levels, dialogue with experts and citizens, solid fundamentals in terms of financing, institutions and information systems, client-orientation and a new service culture of public policy, team work and, last but not least, a sense for grasping a moment of opportunity for reform. From a more critical perspective, the Chilean reform process was mainly shaped by political and technocratic elites, leaving the private AFP system unchallenged, with little input from civil society and sidelining more radical reform proposals articulated by women's and trade union groups (Staab 2012).

As regards Argentina, the latest pension reform process has been widely criticized because the government did not enter into a broader debate with stakeholders, nor did it seek a broad consensus across party divisions and based on technical studies and expert recommendations.⁴³ The top-down reform process in combination with a low level of transparency and institutional innovation casts doubts on the future sustainability of the new system. On the positive side, the government has demonstrated its autonomy and its capacity to implement tough reforms that go against strong vested interests and to advance its developmental agenda based on a more active role of the state and expansion of redistribution and social policies.

Lessons from impact analysis on reform design and models

In terms of social impact, both reforms have been evaluated positively as they have increased coverage and gender equity and reduced old-age poverty (Mesa-Lago 2009b, 2012b; Hohnerlein 2012). Social solidarity, redistribution and equity have improved, although some issues with regard to equal treatment of different groups of those insured remain in both countries. In terms of benefit adequacy, both reforms and pre-reforms have increased non- and semi-contributory benefits, with total values and replacement rates being higher in Argentina for social pensions. With regard to economic impact, the Chilean reform is grounded in a more transparent and stable fiscal scenario. The new system, which guarantees a minimum income for the elderly belonging to the 60 per cent of Chileans with lower incomes, is likely to have a positive impact on domestic demand, employment and the general investment climate.

The current financial situation of the public pension system in Argentina is equally positive following the massive transfer of accumulated pension savings to ANSES, although uncertainties persist with regard to the future fiscal sustainability of the system, especially as the share of contribution-financed benefits compared to tax-financed ones has decreased dramatically (UCA 2012). With regard to the broader impact on the economy, the reform has been considered instrumental in tackling the adverse consequences of the financial crisis and for channelling funds into public investment projects with expected multiplier effects that are positive for employment and growth

⁴³ Mesa-Lago 2009^a; Hohnerlein 2012; Lo Vuolo 2008.

(Bertranou et al. 2011). What is less clear is how sustainable the pension system can be in a context of increasing macroeconomic instabilities and to what degree the expansion of social transfers and state financing through social insurance funds has contributed to these.

Pending challenges for the future

Argentina has shifted back to a public pension system which is financed on a PAYG basis, while disposing of accumulated funds transferred from the private AFJP pillar during a transition period. However, it has been noted that the justification and arguments for the 2008 reform were more focused on the negative outcomes of the private pension system than on the advantages of the new public system despite weaknesses and problems of the public system that had already existed before privatization.⁴⁴ Only limited discussions took place about the way in which the pension system emerging from re-nationalization would avoid the problems faced in the past, notably erosion of coverage in contributory systems operating in fragmented labour markets with persistently high levels of informality, adequacy of future benefits, fiscal sustainability of pension benefit promises and management of pension funds (Arza 2012b; Lo Vuolo 2008). The challenge Argentina's public pension system faces in the future is therefore to avoid the pitfalls of the past and to develop a reform strategy that addresses the mentioned problems, improves gender equity and equal treatment among different groups of those insured and creates appropriate regulations and institutions to fulfil these objectives.

In Chile, the reform did not substantially change the AFP system, which continues to operate on a for-profit-basis, yielding the highest profits of the private pension sector in Latin America, while the state assumed new fiscal responsibilities in order to prevent poverty in old age.⁴⁵ The reform also failed to re-introduce employer's contributions as a means to increase the fairly low contribution rate, and did not stipulate the entry of new competitors such as public banks into the system (Maldonado and Palma Rocco 2013). The risks associated with privately managed, fully funded pension systems remain and were painfully demonstrated during the recent global financial crisis, even though they have been mitigated through the introduction of the multiple fund option. Some reform objectives, the above-mentioned greater competition in the AFP market and increase of the retirement age, were rejected in the process. Women, despite significant improvements, continue to be disadvantaged in the AFP system through benefit calculation formula based on life expectancy (Staab 2012). For some, the Chilean pension reform is considered a lost opportunity to achieve more substantive changes to the country's pension system (Riesco 2009). The question arises whether other countries with less favourable conditions will have the same policy space for increasing equity in their multi-pillar programmes without a systemic change.

By way of conclusion, our analysis has shown that despite the fact that privatized pension systems in Latin America demonstrate significant institutional resilience, based on new path dependencies and power constellations which are linked to the introduction of capitalized schemes, major re-reforms are indeed possible. This shows that policy makers

⁴⁴ Arza 2012b; Lo Vuolo 2008; Hohnerlein 2012.

⁴⁵ According to AIOS (2010:table 21), the Chilean AFP system obtained the highest net result (revenues from fees minus operational costs) in the region—USD 506 million (June 2009-June 2010)—followed only by Mexico with USD 280 million, whereas in countries like Bolivia, Costa Rica and Panama the net result was negligible.

continue to seize “windows of opportunity”, both for fiscal reasons and in response to citizens’ demands for greater social inclusion and basic income security. The two new reforms in Chile and Argentina are likely to function as examples for peers in the region, probably not in terms of reform blueprints as happened in the past, but rather showing that it is feasible to regain policy space and ownership over social policies as an effective instrument to foster social cohesion, poverty reduction and social development. It is therefore now important to conduct further research on the performance and sustainability of the reformed systems, and the new institutions that have been created. Key issues, here, relate to their economic and social impact, and their adaptability and sustainability in a context of rapid socioeconomic change at national and global levels.

Appendix

Table A.1: Main aspects of the Argentinean pension reforms (2005–2008)

Topic	Reform	Description
Coverage: Distribution of workers among schemes	Special retirement schemes were reinstated	Teachers, diplomats, researchers and judiciary employees can retire with 82 per cent of reference wage, and different age or vesting periods. Their current and accumulated past contributions are directed to the PAYG scheme.
	Affiliates to funded scheme allowed to switch back to PAYG ^a	Workers with less than 10 years to retirement and low balances in their accounts switched by default back to the PAYG scheme. All other workers allowed to switch once every five years.
	Default scheme choice to PAYG ^a	New workers are enrolled by default into the PAYG scheme, unless they explicitly join a pension fund.
Coverage: Elderly access	Access to a non-contributory pension	Quotas limiting the number of non-contributory pensions were eliminated.
	Moratoria Plan	Individuals having reached the minimum retirement age but not completed minimum contribution years are allowed to join a payment plan for unpaid past contributions (before 1992) and to receive pension benefits and health care coverage immediately.
	Early retirement	Individuals with less than five years to retirement age and complete vesting period can retire with reduced benefits (50 per cent penalty, until the statutory age of retirement).
Benefit level/adequacy	No indexation scheme	Benefits in the PAYG system continue to have no automatic indexation scheme.
	Discretionary increases with focus on the minimum benefit	Authorities continued the policy initiated in 2003 to increase the minimum benefit, and smaller increases were given to other beneficiaries.
	Benefits from new PAYG scheme increased ^a	Retiring workers with contributions to the new PAYG scheme (2008) will receive higher benefits (from 0.85 per cent of based salary per year to 1.5 per cent)
Funded Scheme: Administrative cost and insurance	Change in cost definition and maximum ^a	Pension fund managers no longer responsible for cost of disability and survivors insurance. Maximum administrative cost set at 1 per cent of taxable wage.
	Consolidation of system, pooling all risks ^a	Elimination of insurance companies' role. New scheme based on collective self-insurance of all participants in pension funds.
Investment of pension funds: new instruments	Investment in "productive and infrastructure projects" allowed ^a	New regulation established that pension fund assets could be invested in this new type of asset. A minimum investment of 5 per cent of total assets was required, departing from previous practice when no minimum thresholds were used.
Multipillar scheme	Elimination of the capitalization pillar ^b	The capitalization system was removed on 1 January 2009 and all its contributors, beneficiaries and assets were transferred to the PAYG scheme.

Notes: ^a These reforms are part of the Law 26.222. ^b This reform is part of the Law 26.425. Others reforms are the result of different regulations. **Source:** Elaborated from Rofman et al. (2008, 2010).

Table A.2: Main aspects of the 2008 Chilean pension reform

Topic	Reform	Description
Coverage through poverty-prevention pillar	Creation of a New Solidarity Pillar	Provides a Basic Solidarity Pension (PBS) to individuals with no pension earnings, belonging to the 60 per cent poorest individuals in the population. Provides a Pension Solidarity Complement (APS) to individuals who are able to finance a small pension below the minimum and who belong to poorest 60 per cent of population.
	Compulsory contributions from self-employed workers	After a transition period, self-employed workers in certain tax categories will be required to make contributions into the AFP system, through their annual income tax statement.
Coverage/adequacy through contributory pillar	Subsidy to contributions from low-income young workers	The first 24 contributions of low-income workers aged between 18 and 35 will be partly subsidized by the state and an additional payment will be deposited into their AFP accounts.
	Additional contribution for women	Women and men will be charged the same fee (based on male risk profile) for the disability and survivorship insurance although men have higher risk rates. The difference in premiums will be deposited in women's accounts.
	Additional tools for supervision of contribution payment	Circumstances where employers stop making contributions without formal reporting will be automatically considered as "declared but not paid". Employers will be allowed three additional days if they file contributions electronically.
Coverage/adequacy through voluntary pillar	Legal framework for Collective Voluntary Savings Plans	Provides tax incentives for firms to set up collective plans where workers contributions are matched, to some extent, by the employer, subject to a minimum vesting period.
	Tax incentives for middle-income workers	Allow for tax exemptions either at the time of contribution or at the time of withdrawal. There is a bonus set by the state to low-income individuals who make voluntary contributions on an individual or collective basis.
Gender equity in the pension system	Child bonus	The state will either deposit a bonus in the woman's account or increase the amount of the PBS in the annuity-equivalent for every live-born or adopted child. The amount of the bonus is equivalent to 18 months of contributions at the minimum wage rate, plus the accrued interest (average rate of return of pension system) from the birth of the child until the moment the woman turns 65.
	Savings redistribution in case of divorce or annulment	The judge can order, as a means of economic compensation, to redistribute savings between the two accounts, up to 50 per cent of the funds that were accumulated during the period the couple was married.
	Equal treatment of men and women in the pension system	Women can now leave, in case of death, pensions to their surviving spouse (this results in lower pension for women in exchange for this additional benefit). Separate contracts for men and women are set for the disability and survivorship insurance.

Increase price competition in the AFP industry	Competitive bidding for new members	The Superintendency of Pension Funds will set up, every two years, a bidding process: the AFP that offers the lowest fee will automatically receive all new participants in the system for a period of 24 months. This fee is then applied to all members of the AFP, current and new affiliates.
	Incentives for separation of AFP functions through outsourcing	AFPs are now allowed to outsource most of their functions. Tax disadvantages for outsourcing are eliminated (AFPs receive tax credit for VAT paid to subcontractors)
	Separation of disability and survivorship insurance	All AFPs must set up, together, a bidding process to obtain a collective disability and survivorship insurance.
	Simplification of fee structure	Facilitates cost comparison by allowing only one type of fee (as a fixed percentage of taxable income).
	New actors in the industry	Insurance companies are allowed to create an AFP subsidiary, maintaining the sole purpose nature of the regulation.
Investment regime	More flexible investment limits	Only structural limits are fixed by law: other limits are set by secondary regulation, with advice from an Investment Technical Committee. This increased flexibility is accompanied by greater responsibility from the AFPs, which must now set up special board committees for investments and conflicts of interest and explicit investment policies. Eventually, investment limits may be replaced by risk measurement and control.
	Higher limit for foreign investment	The maximum investment limit can be increased to up to 80 per cent of the value of the Pension Fund. The Central Bank will set it within a 30 per cent to 80 per cent range.
Participation, information and education	Creation of an AFP Users' Committee	Representatives of workers, retirees and administrators will make periodic evaluations and propose improvements.
	Creation of Pension Education Fund	Financed by state transfers and private donations. Funds will be invested in promotion or education campaigns, selected through a competitive process.
	Creation of Pension Advisors	Individuals who offer independent advice on the different choices faced by workers, with an option to be paid from the individual's fund, with a maximum limit of 2 per cent of accumulated funds.
Social security institutional framework	Creation of new institutions	The Pensions Institute (IPS) is created to manage the New Solidarity Pillar, as well as remaining participants in old regime (pre-1981 reform). Integral Pension Assistance Centers are created throughout the country to receive applications for the New Solidarity Pillar. Superintendency of Pensions replaces the current Superintendency of AFPs, supervising and regulating both public and private institutions. The Pension Advice Committee is created to assist the Labour and Finance Ministries in issues related to the NSP.

Source: Elaborated from Rofman et al. (2008, 20010) and Berstein et al. (2009).

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