

# TOWARDS UNIVERSAL COVERAGE IN LATIN AMERICA AND THE CARIBBEAN

**The moment is now; the window of opportunity to undertake ambitious reforms is closing**

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

Furthermore, pension-system reform, particularly its impact on improving the functioning of the labor market, constitutes a central element of a strategy that fosters productivity, employment and growth.

From a political standpoint, the emerging middle classes in the region that aspire to find employment in the formal sector could represent the socio-economic base of the pension reforms.



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## BETTER PENSIONS, BETTER JOBS

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# BETTER PENSIONS, BETTER JOBS

## The majority of pension systems in Latin America and the Caribbean are not fulfilling their objectives

Recent progress in Latin America and the Caribbean has been made in extending pension coverage through non-contributory benefit schemes (that is, benefits not based on previous savings). Nonetheless, 4 out of every 10 people in the region over the age of 65 do not receive a pension. Furthermore, these pensions tend to only pay less than 10 dollars a day. All these suggest that pension systems may be ineffective at eradicating poverty or maintaining the standard of living of workers once they retire.

**Did you know that 4 out of 10 Latin Americans over the age of 65 do not receive a pension and, in most cases, pensions pay less than 10 dollars a day?**

## The failure to reform is not an option: the absence of savings schemes for retirement will have serious social, fiscal, political and economic consequences

The population over the age of 65 in Latin America and the Caribbean will triple in size in the future, reaching up to 140 million people in 2050. Additionally, people of retirement age will live longer after retirement and will have fewer children to support them. About 50 to 60 % of these individuals, representing between 66 and 83 million people in total, will reach retirement age without having paid enough contributions to receive a contributory pension.

These quickly approaching demographic changes will jeopardize the progress observed in the region in recent years in terms of reducing inequality and poverty. These demographic changes will also introduce significant social and political challenges, since retirement-aged people who lack a contributory pension will account for more than 20% of the electorate.

**Did you know that in the absence of reform, 66 to 83 million senior citizens will not receive an adequate pension in 2050?**

## The labor market is the main cause of low pension coverage, and is at the heart of the solution

About 6 out of every 10 workers are not setting aside savings for their pension. This means that 130 million workers do not make social-security contributions, and can therefore be considered informal workers. The informal sector is comprised of self-employed workers (for example, independent workers and business owners), employees of small companies, and low-income workers. Informality also affects the emerging middle classes.

However, informality is not an incurable disease, and is determined in part by the way that social-security systems have been designed since their inception. Informality is also partly determined by the incentives that the state provides in labor markets and by the value that workers and firms place on the benefits of formality. And all of these issues can be remedied.

**Did you know that only 4 out of every 10 Latin American workers make contributions to a pension scheme?**

## Eliminating poverty in old age with universal-pension coverage is feasible by encouraging formal employment

Moving towards universal-pension coverage is achievable, and under certain circumstances that are described in the book, is fiscally feasible both in the present and in the future. However, this ambitious goal can only be achieved by reforms that are comprehensive, holistic, efficient, transparent and innovative.

Progress goes hand in hand with establishing sustainable and efficient anti-poverty pension schemes and simultaneously encouraging the growth of formal employment, for example, by subsidizing pension contributions. To complement these changes, advances are also required in the areas of financial controls, information and education.

**Did you know that by earmarking less than 1.5% of GDP, non-contributory pensions could be made universal and help create more formal employment?**

Pension savings:  
Workers contributing to a pension system in Latin American and the Caribbean, 2010

