IMPACT OF PENSION REFORM ON THE LIVING ARRANGEMENTS OF OLDER PERSONS IN LATIN AMERICA

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INTRODUCTION

Social security systems have become major elements of social development in the twentieth century, with particularly important effects on the well-being of the older groups of society. The past 25 years alone have witnessed dramatic improvements in living standards among the elderly in Europe and the United States of

Therefore, rather than present a conclusive analysis of the consequences of pension reforms on the household structure of the elderly in Latin America, the intention is to provide insights for future research concerned with the relationships between transformations in the pension systems and the well-being of the Latin American elderly population.

INFLUENCE OF PENSION REFORMS ON THE LIVING ARRANGEMENTS OF THE ELDERLY

Determinants of living arrangements of the elderly

Multivariate analyses of the living arrangements of the elderly have emphasized benefits and costs associated with different arrangements (Da Vanzo and Chan, 1994; Knodel and others, 1991; Martin, 1989), pointing out “the apparent interplay of constraints and preferences” (Casterline and others, 1991). In these analyses, the living arrangement of an elderly individual is assumed to be the outcome of a series of decisions taken by a number of people over a considerable period of time, which is heavily influenced by factors such as changes in marital status, employment history, savings and investment, migration, housing, and health-related behaviour. At a given moment in time, an individual is subject to various constraints with respect to the range of living arrangements available; she or he will have a set of preferences as to which arrangements are better than others, and these, in turn, will be juxtaposed with the constraints, resources and preferences of the members of the elderly person’s family network.

Preferences for different living arrangements result from the balance between costs and benefits of cohabitation, and may be influenced by cultural standards and values. The benefits of cohabitation for both the elderly and the other household members may vary from companionship and emotional support to physical and financial support. Among the costs, the literature emphasizes the loss of privacy, the decline in social status of the elderly after losing control of financial resources, and the burden that physically or mentally impaired seniors would represent for live-in caregivers ! typically a daughter.

How pension reforms can influence the living arrangements of the elderly

The most direct effect of pension reform on the household structure of the elderly refers to the influence it may exert on their financial autonomy. Should the benefits increase in value, and if the proportion of the older population who are covered increases, a greater share of elderly individuals would have better conditions for exerting their preferences in terms of household structure, which would probably increase the tendency for independent arrangements (living alone or with a spouse only) among the elderly. On the contrary, if the

The two documents presented similar diagnoses of the problems associated with traditional pension systems, namely, contributions well in excess of salary levels; high incidences of tax evasion and contribution payments in arrears; inadequate application of tax funds and poorly performing investments. There was also common ground over their recommendations, with each set based on three distinct elements. In both cases, the first element consisted of a minimum benefit guaranteed through a mandatory and universal allocation plan financed by taxes and managed by the public sector. There was also agreement over the third element, which offered supplementary pensions based on defined contributions and non-defined benefits, and state-regulated, privately managed individual funds.

Where the two proposals differed, however, was in their treatment of the second element. Here, strategies for reforming the system disagree over a number of variables, including the legal nature of the proposed reform, the financial plan, contributions, benefits and how the assets are to be managed. Although the importance of this second element is not in question, the ILO position is based on a system of partially harmonized funds, with defined benefits financed through contributions from workers and employers, to be managed by social security. Conversely, the World Bank favours an individual savings plan, with non-defined benefits being managed by the private sector, subject to state regulation.

The ILO proposal, whose views are also shared by the International Association of Social Security, seeks to improve the current systems by adopting such non-structural measures as increasing the legal retirement age, eliminating special privilege plans, administrative cost-cutting and better control over tax evasion and contributions in arrears. While the World Bank agrees with the need for these measures, it considers them insufficient to resolve longer-term problems, and instead proposes radical structural reform based on an overhaul of the political system.

Pension reforms in Latin American countries

With the exception of Chile, whose social welfare reform pre-dates the publication of these two proposals, many Latin American countries brought about reforms to their retirement systems that were either too flexible or at odds with the World Bank and ILO recommendations. While the reforms in the majority of these countries have been structural ! meaning the incorporation of a privately managed, individually funded system !

The Chilean reforms, conducted from 1979 to 1981, represent a model of transferring government control to private management, which has had a strong influence on other reforms in the region. However, the drastic Chilean reforms were only possible owing to a powerful authoritarian Government that dissolved Congress, banned political parties and trade unions, controlled the media, and eliminated and/or weakened any type of opposition to the reforms (Mesa-Lago, 1997). Given this unique set of conditions, a "pure" duplication of the Chilean reforms could not be implemented elsewhere in the region. With the re-emergence of democracy throughout the region, the chances of an occurrence similar to what transpired in Chile have also become much less likely. In countries that are still discussing social security reform, the proposals most similar to the ILO recommendations are those most likely to be adopted.

PRELIMINARY RESULTS OF THE CHILEAN REFORM

Even though the Chilean reforms are the oldest in Latin America, it is still too early to evaluate their impact definitively, as the effects they generated will continue to be felt for a long time to come. However, considerable efforts have been made by social welfare specialists to analyse the partial results of the Chilean reforms vis-à-vis their initial intents and expectations.

In 1996, 15 years after reforms to the social welfare system were implemented in Chile, 15 private companies were managing the accounts of 5.5 million Chileans, or approximately 99 per cent of the economically active population. The assets managed by these companies were on the order of $28 billion, or about 40 per cent of Chile's gross national product (Nitsch and Schwarzer, 1998). Despite these impressive figures, the overall evaluation has been a negative one, particularly in terms of the social impact.

One reform originally sought to enhance the level of social coverage, while at the same time reducing tax evasion and increasing the amount of benefit payments. Data from 1997, however, point to a reduction in the scope of the new system in relation to the previous one, as only about 45 per cent of the workforce were contributing regularly (Nitsch and Schwarzer, 1998). In addition, this disparity was even more apparent among the management companies representing low-income workers, meaning that the poorest members of the workforce, who most need assistance, were being left unprotected by the system.

With respect to tax evasion, no significant improvement was noted. Among self-employed workers, about 95 per cent still do not contribute regularly. For regular employees, most pay only the minimum required amounts (Azeredo, 1994). Regarding benefit payments, the situation appears no better. A study assuming 45 years of uninterrupted contributions being made in individual accounts, at profits of 3 per cent a year, would mean the contributor would receive back only 44 per cent of his or her contribution salary over this same period (Ruiz-Tagle, 1994).

Pension reforms in the region are still too recent for a better evaluation regarding their consequences. Only after a relatively long period of time will it be possible to know the real impact of these reforms on the living conditions of the elderly, and particularly on their living arrangements. Up to now, however, the results seem not to favour an increase in the financial autonomy of the elderly in the future, especially if pension reforms are not accompanied by a broader set of other socio-economic reforms.

In fact, there has been a long-held belief that structural reforms resulting from a social security crisis could somehow solve all the problems of previous systems. This would hold even when someone's work history

Accordingly, the mere substitution of a public system by a private one would not be enough to solve today's major social welfare problems. In fact, such a transfer of administration might even further aggravate the problems of segmentation and social exclusion in Latin America, and lead to an even more severe impact on the public purse. The region's social heterogeneity and the narrowness of the formal economy make it difficult to solve the problem of guaranteeing income for retirees and the unemployed through a privately operated, individually funded investment model. In other words, the majority of the population cannot manage without a social welfare programme, or a public vehicle designed for the redistribution of income and wealth.

If it is true that pension reforms in Latin America have been primarily motivated by the desire to improve benefits and augment the national treasury, the success of such reforms will depend on the ability of the region's policy makers to harmonize their strategies in terms of social security. Thus, they are expected to continually modernize and adapt the pension systems to current socio-economic conditions, to achieve a suitable and sustainable equilibrium between social and economic objectives.

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