POPULATION AGEING AND SOCIAL PROTECTION SYSTEMS IN LATIN AMERICA

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The paper is structured as follows. First, the principal demographic trends in Latin America are summarized and their chief implications for social protection systems are highlighted. Second, the characteristics and problems of these systems in Latin America are summarized, without losing sight of the major differences observed between different groups of countries, which reflect their varying degrees of socio-economic development. Third, the discussion focuses on one of the most important areas of social protection reform: retirement and pension systems. Lastly, the primary challenges are examined in the light of demographic trends and the current context of social protection systems: the need to restructure the social protection model, taking into account financing issues and the increasing role of non-contributory programmes; the feminization of the older population and the gender dimension in relation to pension systems; and the labour market for older persons.

A. Demographic trends in Latin America and their implications

According to the estimates of population trends in Latin America by the United Nations (2005) and the Economic Commission for Latin America and the Caribbean (ECLAC, 2004), the region is now at a stage of declining fertility, which was preceded by a decrease in the mortality rate. The fertility rate fell sharply in the 1970s, while the mortality rate has been declining since the first half of the twentieth century. Since the 1960s, Latin America's under-15 population and total population have grown more slowly, resulting in a decrease in the ratio between the under-15 population and the working-age (15 to 64 year-old) population.

Today, the region is experiencing a pronounced slowdown in the growth of the working-age population and a relative increase in the over-15 population. The number of children and youths under-15 per working-age person has continued to decline, while the number of older persons per working-age person has begun to increase, slowly at first but later much more rapidly.

In absolute terms, the region's over-60 population will expand from 42.3 million to 100.7 million between 2000 and 2025. This growth will speed up between 2025 and 2050 during which time this age group is expected to increase by a further 88 million, bringing the number of older persons in the region to 188.3 million. This group's five-year growth rate, which stood at 3.2 per cent in 1995-2000, will increase to 3.7 per cent in 2020-2025; this contrasts with the five-year growth rates of 1.6 per cent and 0.9 per cent, respectively, for the total population during these periods. Accordingly, the proportion of older persons out of the total population, which was 8.1 per cent in 2000, will reach 14.5 per cent by 2025 and 24.1 per cent by 2050. In other words, by 2050, one out of every four Latin Americans will be an older adult. Consequently, the population's median age will rise by 15 years between 2000 and 2050, with the result that, by 2050, half the population will be over the age of 40.

The most striking aspect of this overall process of change in the age structure and acceleration of the ageing of the region's population is the wide variation observed across different countries. On the basis of the region's current ageing profile, ECLAC (2004) has grouped the countries into four categories.[2] This makes it possible to analyse demographic variables in conjunction with other social and institutional variables that affect the performance of social protection systems.

The first group of countries is the one with advanced population ageing. Argentina, Chile, Cuba and Uruguay are in this group, together with a number of Caribbean islands, such as Barbados, Guadeloupe, Martinique, Netherlands Antilles, Puerto Rico and the Virgin Islands, which are not considered in this paper. In these countries, the proportion of older persons exceeds 10 per cent.

The second group consists of countries with moderate to advanced population ageing, where the proportion of older persons now ranges from 8 per cent to 10 per cent. In these countries, the proportion of older persons will increase rapidly (to between 25 per cent and 30 per cent) in the coming years. Brazil is the only country in the region that fits this description.

The third group consists of countries with moderate population ageing. In these countries, the percentage of people aged 60 or over now ranges from 6 per cent to 8 per cent and is expected to exceed 20 per cent by 2050. The countries in this group are Venezuela, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama and Peru.

Lastly, the group of countries with incipient population ageing consists of the Dominican Republic, protection is even more comprehensive, as it refers to the whole spectrum of actions taken by public and private entities to help households and individuals cope with a series of life contingencies or risks (Cichon and others, 2004). Accordingly, this definition reflects the modern view of social protection based on three pillars: (i) access to basic goods and services; (ii) protection and prevention; and (iii) promotion of opportunities.

In practice, the social protection systems currently in place in the various countries of the region, regardless of per capita income, consist of a mix of non-contributory and contributory schemes and programmes. Social protection models and their performance reflect the particular way in which their components have been developed over the years, as well as the prevailing institutional framework, which, in turn, is influenced by different political and organizational factors in different countries.

The biggest problem and challenge facing social protection systems, particularly in Latin America, is low coverage (ILO, 2002; Mesa-Lago, *Inappropriate priorities*: The priority-setting process is deficient in determining the target populations and priority risks to be covered. One major challenge is to identify the most cost-effective social protection instruments and to generate or adapt instruments to take into account the heterogeneity of the labour market, the variety of employment arrangements, and the population structure.

Insufficient, unstable, pro-cyclical financing: The social protection system is financially dependent on the macroeconomic cycle, with the result that revenue flows do not behave in accordance with the funding levels of benefit programmes; rather, the reverse is true. The challenge is to generate complementary, counter-cyclical financing mechanisms by means of a prudent fiscal policy and to increase the overall volume of resources allocated to social protection.

Unsuitable, regressive financing: The current financing model for social protection is inappropriate to the region's social situation and labour markets and has a regressive effect on income distribution. The challenge is to change key parameters of the financing model for social protection so that it will promote, or at least not inhibit, job creation. The definition of these parameters is not neutral in terms of incentives for job creation. Basically, two financing mechanisms can be identified: payroll contributions and general taxes. In practice, these two "pure" mechanisms are used in combination and varying proportions by most countries of the region. Under the traditional Bismarckian scheme, which is still followed in many countries, payroll contribution is the main source of financing for social protection benefits. However, this mechanism must be used with care. Although the linkages between the level of contribution and the level of employment are not completely clear, it may be assumed that the correlation will, in general, be negative. Financing based on general taxes will have less impact on the labour market and its impact on efficiency and equity will depend on the particular design of a country's tax system. Because this type of financing is tax-based, it is generally pro-cyclical.

Limited institutional performance: There are deficiencies in the organizational structure and functioning of the relevant institutions. The challenge is to strengthen these institutions with a view to optimizing the management of social protection. Here again, it is necessary to identify cost-effective ways to improve institutions.

Sharp inequalities and inequities: Differences between individuals' work histories and access to social protection generate significant inequalities and inequities. Moreover, the problems outlined above tend to perpetuate – and sometimes exacerbate – situations of inequality. The challenge is to reduce inequalities and inequities in social protection systems by broadening coverage and standardizing programmes, using advocacy and cooperation to open a dialogue on reform, and eliminating regressive financing mechanisms.

Table 1 illustrates the magnitude of the problem by indicating the proportion of workers that contribute to social security and the proportion of the older adult population that receives a significant form of social security coverage, i.e. old-age benefits. Among other things, this table highlights the wide disparities between different countries in the region, which reflect their different social and labour-market situations. These coverage gaps, in turn, stem from the very significant problems caused by unequal eligibility criteria for access to benefits, together with the resulting inequalities and inequities. Levels of employer-provided coverage differ considerably between the population groups in the first and fifth household income quintiles. In some countries, this difference is extraordinarily wide. This situation, in turn, is reflected in disparities in access to so

TABLE 1. LATIN AMERICA: RETIREMENT AND PENSION COVERAGE
(Percentage)

Country	Employer-provided coverage: Total	Quintile I	Quintile V	Indicator of inequality of coverage (QV/QI)	Coverage of older adult population
Incipient ageing [a]					
Dominican Republic (2003)……………	. .	. .	. .	. .	10.9
Guatemala (2000)………………………	19.9	1.8	42.5	23.6	11.3
Nicaragua (2001)……………………….	19.4	3.1	33.1	10.6	4.7
Paraguay (2003)………………………..	13.9	0.1	38.7	387.0	19.6
Moderate ageing					
Bolivia (2002)………………………….	10.9	0.5	36.4	72.8	14.7
Colombia (1999)……………………….	26.9	3.2	59.5	18.6	18.6
Costa Rica (2003)……………………..	63.4	22.9	83.2	3.6	36.6
Ecuador (2004)………………………....	27.6	12.1	52.2	4.3	15.2
El Salvador (2003)……………………..	31.8	6.7	63.2	9.4	14.5
Mexico (2002)………………………….	28.4	1.4	53.1	37.9	19.2
Peru (2003)……………………………..	15.2	1.3	42.6	32.8	23.7
Venezuela (2004)………………………	36.8	5.4	57.1	10.6	23.9
Moderate to advanced ageing					
Brazil (2002)…………………………...	48.3	13.7	72.7	5.3	85.9
Advanced ageing					
Argentina (2004)……………………….	39.4	2.1	66.7	31.8	68.3
Chile (2003)……………………………	64.7	40.1	73.6	1.8	63.8
Uruguay (2004)………………………...	57.3	13.7	78.9	5.8	87.1

Source: Prepared by the author on the basis of Rofman and Lucchetti (2005), Rofman (2005) and other sources.
[a] No data were available for Haiti or Honduras.

systems tend to exacerbate. However, the compensatory effect of these efforts is limited, and differences in the availability and quality of coverage are often only partially corrected. This issue will be examined in a subsequent section.

When the countries are classified according to th

C. Retirement and pension systems: reforms and implications

Retirement and pension systems in Latin America have a long history and they vary widely in terms of their organization, financing, and performance. Demographic changes and the precarious fiscal situation in the countries of the region were compelling arguments for changing these programmes. As a result, this has probably been one of the most intensive and controversial areas of social policy reform in the past two decades.

Since 1981, at least ten Latin American countries have adopted structural reforms; that is, reforms that have not only changed the financing regime by introducing a fully or partially pre-funded (defined contribution) scheme, but have also involved private management of pension funds. All these reforms have also included or entailed reforms defined as parametric, meaning those designed to improve the systems' financial viability through changes in eligibility criteria (such as the retirement age) or financial parameters (such as contribution rates). Reforms in other countries have been non-structural, although they have introduced major changes which, like structural reforms, have required significant economic policy initiatives and negotiations among social stakeholders.

The countries that have implemented structural reforms are Chile (1981), Peru (1992), Colombia (1993), Argentina (1994), Uruguay (1996), Mexico (1997), El Salvador (1997), Bolivia (1998), Costa Rica (2000) and Dominican Republic (2003). Nicaragua (2000) and Ecuador (2001) have passed legislation introducing structural changes but have not implemented the reforms because of legal and administrative reasons. Among the countries with non-structural reforms, the most representative (and therefore most visible) case in the region has been Brazil, which introduced reforms for private-sector workers in 1999 and for public-sector workers in 2003-2004. Another country that implemented this type of reform is Panama, which in 2005 introduced non-structural changes, but the new legislation was submitted for further review. Colombia deepened certain aspects of its reform in 2003 and Peru made some additional changes in 2004. Accordingly, in recent years, the trend among the countries that have adopted reforms is to avoid wide-ranging structural reforms but rather, to pursue parametric reforms. In some cases, like those of Colombia and Peru, the reforms have been made by introducing a private component during the 1990s.

Structural reforms have mirrored many of the features of the 1981 Chilean reform. Another common denominator is that the reforms have reflected the dominant paradigm of the 1990s advocated by the World Bank (1994) in its proposal on multi-pillar systems. Despite these similarities, the specific characteristics of the reforms have varied widely from one Latin American country to another. For example, structural reforms have followed different paths. According to the typology put forward by Mesa-Lago (2004) in a number of studies, three models can be identified: substitutive, parallel and mixed. Under the substitutive model, a fully-funded (individual account) scheme completely replaces the defined-benefit, pay-as-you-go scheme. In other words, the contributions paid by workers entering the labour market are allocated in their entirety to the new fully-funded scheme. Under the parallel model, workers have a choice between contributing to a fully-funded scheme or to a publicly-managed defined-benefit, pay-as-you-go scheme. The mixed model is a combination of the other two models; its financing and benefit parameters have also been subject to reforms. Figure 2 summarizes this typology, which is consistent with the one proposed by Mesa-Lago. However, it includes, as a type of mixed model, the Argentine system, in which workers can opt to keep all their contributions in a defined-benefit scheme.

Figure 2. Types of retirement and pension reform by allocation of contributions under the reformed system

<table>
<tr><th colspan="7">Allocation of mandatory retirement and pension contribution by type of system</th></tr>
<tr><th rowspan="2">Fully funded</th><th rowspan="2">Pay-as-you-go (PAYG)</th><th rowspan="2">Fully funded</th><th>PAYG</th><th>Fully funded</th><th>Fully funded</th></tr>
<tr><th colspan="2">PAYG</th><th>PAYG</th></tr>
<tr><td>Bolivia
Chile
El Salvador
Mexico
Dominican Republic

All contributions go to fully-funded individual accounts.</td><td colspan="2">Colombia
Peru

Workers can choose to pay into individual accounts or the pay-as-you-go system.</td><td colspan="2">Argentina

Contributions go into a pay-as-you-go system that provides a basic pension. For the complementary pension, workers can choose between individual accounts or pay-as-you-go.</td><td>Costa Rica
Uruguay

Contributions for the minimum pension go into a pay-as-you-go system; those for the complementary pension go only to individual accounts.</td></tr>
</table>

Source*: Gill and others (2005).*

What do Latin America’s pension systems look like in the wake of this reform process? An important point is that, although the reforms have radically changed many aspects of the social security systems’ financing and organization, they have continued to assign a major role to public institutions, primarily in regulation and oversight as well as in management. In doing so, the reformed systems are of a mixed nature. For instance, in Chile, where the purest form of substitutive strategy has been adopted, the State has been involved not only with these functions but also with the administration of the old system during the transition period. Moreover, it plays a significant role in many of the system’s components, particularly the provision of non-contributory benefits as well as basic or minimum benefit guarantees.

In a labour market with an occupational structure dominated by informal jobs and a large proportion of non-wage-earning workers, a contribution-based social security system generates wide disparities in coverage. However, these gaps have been partially closed through non-contributory programmes particularly in countries where social security systems are more highly developed as a result of their economic development and the history of their social institutions. The Latin American countries whose social security systems best exemplify this kind are the so-called social security pioneers in the region. These are Argentina, Brazil, Chile, Costa Rica and Uruguay (Mesa-Lago and Bertranou, 1998). Other countries, such as Colombia, have introduced such schemes more recently, while Bolivia has devised an innovative system of universal benefits for older persons known as Bonosol (World Bank, 2004).

Table 2 sums up certain features of the Latin American countries in terms of the stage of the population ageing process, level of coverage, type of pension system, and poverty rate of the over-60 population. This information indicates that, despite the pronounced trend towards social security “privatization” in the region, the dominant model incorporates a significant public-sector role. Accordingly, the systems have been grouped into four categories: mixed, mixed-private, mixed-parallel and public.

D. PRINCIPAL CHALLENGES POSED BY DEMOGRAPHIC CHANGES

This section offers a brief discussion of some of the principal challenges that demographic changes pose for social protection systems. The three main issues covered are the need to restructure the social protection model; the feminization of the older population and the gender dimension in relation to retirement and pension systems; and the labour market for older persons.

Need to restructure the social protection model

The process of redefining the social protection model has two important and overlapping dimensions: financing, on the one hand, and eligibility criteria for coverage and benefits, on the other. The main task in the area of financing is to determine the mix of financing sources, which essentially consist of payroll contributions, taxes or a combination of the two. In the case of pension systems that have switched to a fully-funded regime, the rate of return on the accumulated funds also becomes important, but because these systems' financing is based primarily on payroll contributions, the retu

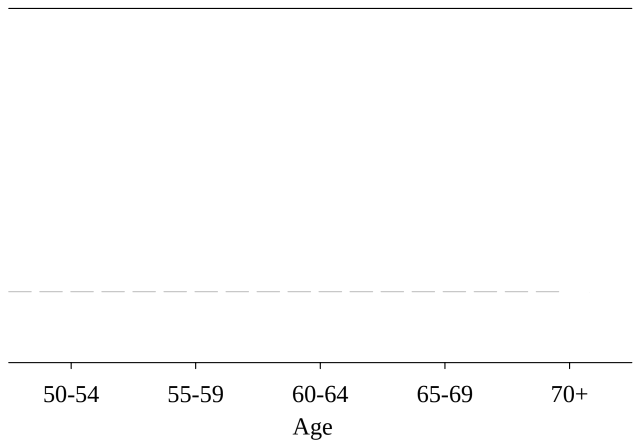
TABLE 2. LATIN AMERICA: SOCIO-

outcomes. The programmes are still limited in scope and have only slightly narrowed the coverage gaps left by contributory programmes. Nonetheless, this effort to protect the most vulnerable members of the older adult population has been significant in certain countries, including Chile and Brazil.

In Chile, in the 1990s the growth of benefit coverage for the over-65 population was attributable essentially to the expansion of the welfare pension programme, while benefit coverage under the contributory system declined slightly. In 1992, contributory benefits covered 67.1 per cent of the over-65 population; by 2000, this percentage had decreased to 64.4 per cent. The coverage of welfare pensions, meanwhile, rose from 8.3 per cent to 14.7 per cent o694 0 TD0.0875Tcm welfare pen .n century, especially in the early part of that period, when men's and women's roles in the family and the workplace reflected cultural norms that differ significantly from those prevailing today. In the past three or four decades, divorce and separation rates have soared, with profound repercussions for divorced and separated women in terms of income security in old age, especially in the case of women who have not personally contributed to a pension programme through their jobs. For example, if a woman's former

Labour-force participation trends among older persons (60 or over) and their linkage to social protection, particularly retirement and pension programmes, have attracted considerable attention in the past decade in developed countries, but little attention in Latin America. The stylized facts observed in many OECD countries show that the trend towards early retirement from the labour force has declined or held steady (Auer and Fortuny, 2002). Moreover, it a among older persons and is on the decline; and (v) employed persons over 60 gradually work fewer hours as they get older. Another important consideration is the way in which workers make the transition from employment to retirement, since there are institutional factors that either encourage or discourage labour-force participation of older persons. As noted earlier, the pension-system reforms of the 1990s have "toughened" the eligibility requiremen

Figure 5. Labour-force participation by age-group for men and women aged 50 or over in Honduras, 1990 and 2003



The most important point in relation to the general concept of social policy and the restructuring of the retirement and pension system is unquestionably the resulting balance between the individual and collective responsibilities that must be assumed by stakeholders in order to cope with the contingencies of old age, disability and death. Strictly contributory schemes funded through individual contributions are based on individual responsibility. This means that the "premiums" and/or benefits are adjusted in accordance with each individual's work history and risks. These new features are also having a significant gender impact. Alternatives to this extreme contributory/individual scheme transfer part of the responsibility to a more collective level (company, State). In recent years there seems to have been a growing interest in partially restoring the balance between individual and collective responsibility, or at least not deepening reforms that reinforce the contributory/individual aspect of social protection.

Another issue concerns the need to conceive of the social protection system as a whole, instead of taking a fragmented approach to the social risks faced by each individual in the course of his or her life cycle. Given the increase in life expectancy, for older persons the greatest risk inherent in this increased longevity is, to a growing extent, the inability to pay for health care rather than the inability to generate or replace income. In the near future, the design of social protection systems should not be fragmented into health insurance, disability insurance and old-age insurance. Indeed, old age is just a time of accelerating health and disability risk (Shiller, 2003). Thus, it is important to address not only the contingency of old age itself, as traditionally conceived, but also the whole range of risks that increase in the final stage of life.

Lastly, the legal retirement age is a key variable of pension systee e94-7.-1.hits impact on the systems' financial viability at the aggregate level and on the degree of coverage at the individual level, particularly in cases where benefits are derived from individual savings. In ters of public financing, increasing the legal retirement age could be technically the easiest variable to manage in a reform, but politically the most difficult one, as it is likely to meet the most resistance. Moreover, women are negatively affected by the different legal retirement ages for men and women under systems that have introduced individual accounts; however, socially this is not a major issue on the future reform agenda.

Along with the discussion on the legal retirement age in terms of its significant potential as a ms of adapting retirement and pension syems to the c ountries' new demographic profile, the labour market

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