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Reversing pension privatization:

The experience of Argentina, Bolivia, Chile and Hungary

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Abstract

This paper systematically compares and evaluates the reforms of private pensions systems in Argentina, Chile, Bolivia, and Hungary due to initial failures in design and performance after its implementation. The document presents advantages and flaws of the structural reforms and private pension systems before the re-reform and analyses legal features and socio-economic effects of the re-reforms. The analysis focus on ten selected social security principles: social dialogue, universal coverage, equal treatment, social solidarity, gender equity, benefits sufficiency, efficiency and reasonable administrative costs, social participation, state role and supervision, financial sustainability.

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List of acronyms

AFP	Administration of pension funds (*Administradora de fondos de pensiones*), Bolivia, Chile and Hungary
AFJP	Administration of pension funds (*Administradora de fondos de jubilaciones y pensiones*)
ANSES	National Administration of Social Security, Argentina (*Administración Nacional de la Seguridad Social*)
APS	State solidarity contribution to pensions
PBS	Basic solidarity pension (Pensión básica solidaria)
CC	Contribution compensation
CEE	Central and Eastern Europe
EAP	Economically active population
GDP	Gross domestic product
FGS	Guaranteed fund of sustainability
HDI	Human Development Index
IFO	International financial organizations
ILO	International Labour Office/Organization
LAC	Latin America and the Caribbean
PAYG	Pay-as-you-go
OECD	Organization for Economic Co-operation and Development
UF	Monetary unit automatically adjusted to inflation, Chile
UFV	Housing unit automatically adjusted, Bolivia
US$	United States dollars

1. The structural reforms: models, advantages and flaws

In the last three decades, «structural reforms» totally or partially privatized social security pensions. [1] They shifted «public» schemes characterized by defined-benefit, financing by pay-as-you-go (PAYG) or partial collective funding, and public (social security) management into «private» schemes typified by defined-contribution, fully-funded financing (individual accounts) and private administration. Starting with Chile in 1981, the pioneer and trendsetter, and ending with Romania in 2008, 23 countries undertook some type of pension privatization, 13 of them in Latin America and the Caribbean (LAC) and ten in Central and Eastern Europe (CEE). [2] The World Bank (1994) published a book that endorsed the reforms and provided financial-technical support to many countries. Most structural reforms took place in LAC and later in CEE (Müller, 2003; Mesa-Lago, 2008), but partial reforms were tried in Western Europe, implemented in a few African and Asian countries, and advocated in Western industrialized nations.

This paper presents a summary of the findings of a study on Re-reforms of Privatized Systems based on the cases of Argentina, Bolivia, Chile and Hungary. Diverse models of structural reform were implemented in the four countries. Chile and Bolivia followed the «substitutive» approach: they closed the public system and replaced it with the private system, but Bolivia forced all the insured to change, whereas Chile gave a limited period for the insured to decide whether to stay in the public system or move to the private system (enrolment in the latter was mandatory, in both countries, for all new entrants into the economically active population – EAP). Argentina and Hungary followed the «mixed» approach but with differences. Argentina's was more complex because the public system was not closed and a new system was created with two pillars: the first, public, provided a basic pension and the second, private or public, granted a supplementary pension. At the start the insured, both old and new entrants in the EAP, could move between the two systems but restrictions were later imposed. In Hungary, the pure public system was initially closed to new entrants and a two-pillar system created: the first, public, paid a proportional instead of basic pension and the second, only private, was expected to grant a supplementary pension strictly based on the balance of the individual accounts (it was never paid because that pillar closed in 2011). Later on it was possible to return to the public system and new entrants could opt for it and then newcomers were forced to join the private pillar.

Most structural reforms were successful in: strengthening the relationship between contributions and pension levels (equivalence), improving efficiency in managing individual accounts and periodically reporting their balance to the insured, shortening the

[1] A structural reform totally or partially closes a public pension system, whereas a parametric reform maintains a public system with measures to improve it and make it financially viable.

[2] In Latin America: Chile 1981, Peru 1993, Argentina and Colombia 1994, Uruguay 1996, Bolivia and Mexico 1997, El Salvador 1998, Nicaragua 2000, Costa Rica and Ecuador 2001, Dominican Republic 2003, and Panama 2008. In CEE: Hungary 1998, Poland 1999, Latvia 2001, Bulgaria, Croatia and Estonia 2002, Lithuania 2004, Slovakia 2005, Macedonia 2006, and Romania 2008. In Latin America ten countries now have public systems: Argentina, Bolivia, Brazil, Cuba, Ecuador, Guatemala, Honduras, Nicaragua, Paraguay and Venezuela (Ecuador's and Nicaragua's reforms were declared unconstitutional or annulled). In CEE only Slovenia and the Czech Republic have pure public systems but the latter plans to introduce a private pillar in 2013 (Mesa-Lago, 2008; Fultz, 2012b).

period for processing benefits, and achieving substantial capital accumulation in the pension funds as well as reasonable to high capital returns in LAC. [3]

Conversely, the structural reforms had substantial design and implementation flaws: 1) the premise of a universal paradigm that fitted all regardless of significant economic, social, and political differences among countries worked in some and failed in others; 2) the private system was geared to an urban, formal labour market but in most of LAC the informal and rural sectors predominated, therefore the majority of the labour force was excluded (not in CEE); 3) most of the reforms assumed effects that did not materialize: coverage was stagnant or declined, competition did not work properly in most countries (particularly in small ones), administrative costs were high, the invested portfolio remained concentrated in the majority of cases (due to the lack of a capital market or an incipient one), gender equity was eroded (private schemes normally lack social solidarity); [4] 4) most of the reforms neglected the first or zero pillar to provide non-contributory (social assistance) pensions for the poor (less so in CEE); 5) the premise that ownership of individual accounts and private management would preclude state intrusion and politics was shattered in Argentina where the government pressured pension administrators to invest in state funds, provoking a fund loss during the crisis of 2001-02 — eventually the state nationalized private funds in Argentina, Bolivia and Hungary; 6) the halt or substantial reduction of contributions to the public system generated high transition costs, which also lasted much longer than anticipated and induced unsustainable fiscal costs and debt levels; in Chile they were still 4.7 per cent of GDP in 2010, 30 years after the reform, although considerably less in Bolivia and Hungary (it has been argued in LAC that fiscal costs in the long run would have been higher without the reform); and 7) the global financial crisis of 2007-09 sharply reduced the capital accumulated and its returns in private systems, prompted criticism, and halted further structural reforms —although there was a recovery later on, some countries used the losses to justify the re-reforms (Mesa-Lago, 2008, 2010; Calvo et al., 2010; Schwartz, 2011; Fultz, 2012b).

2. The re-reforms

Initial failures in design and performance after the implementation of the private systems led to corrections (partial reforms), for instance, in Argentina (2003-07), Bolivia (2007-08) and Hungary (2000-09), but they did not address the fundamental problems. In 2008, two LAC countries implemented «re-reforms» of their private pension systems with different approaches: Chile preserved but enhanced the system to extend coverage to poor and low-income persons, infuse social solidarity, increase pensions, and improve gender equity, whereas Argentina shut down the system and transferred without consultation all the insured and funds to the public system. In 2010, Bolivia and Hungary followed the Argentinian approach by nationalizing the private pillar; Bolivia guaranteed the individual

[3] According to Fultz (2012a), these effects did not occur in most of CEE: real capital returns were negative, and efficiency in paying benefits could not be measured because few were being paid.

[4] The assumption that private systems would cope with population aging has been refuted: as life expectancy grows, the accumulated fund in the individual account becomes insufficient, thus forcing an increase in the «defined» contribution, a cut in the pension, a raise in the retirement age or a combination of these measures (Barr and Diamond, 2008).

accounts within the public system, whereas the law in Argentina guaranteed that the public pension would be equal to or better than that in the closed private system. [5]

3. A comparative analysis of the re-reforms: legal features and evaluation of socio-economic effects of the re-reforms

A world debate is emerging on the pros and cons of the re-reforms (Mesa-Lago, 2009; Calvo et al., 2010; Simonovits, 2011; Orenstein, 2011; Fultz, 2012b). This is the proper time to undertake, within a common framework, a detailed and comparative analysis of the four most radical re-reforms existing at the end of September 2012, with the objective of determining if they have alleviated the flaws of the structural reforms and introduced new elements to be assessed.

The original study undertaken by the author includes comprehensive case studies of each of the four re-reforms (arranged by their date of implementation), based on the same structure and with similar legal information and statistics: Chile (Mesa-Lago, 2013); Argentina (Hohnerlein, 2013); Bolivia (Mesa-Lago and Ossio, 2013); and Hungary (Simonovits, 2013). The final study systematically compares the features of the re-reforms, evaluates their socio-economic effects, identifies pending problems and challenges while offering recommendations to cope with them, and explores potential influences of the re-reforms in LAC and CEE. [6]

The four case studies and the comparisons focus on the fulfillment of ten social security principles based on ILO conventions and recommendations (for an analysis of these principles, see Mesa-Lago, 2008): 1) social dialogue, 2) universal coverage, 3) equal treatment, 4) social solidarity, 5) gender equity, 6) benefits sufficiency, 7) efficiency and reasonable administrative costs, 8) social participation in administration, 9) state role and supervision, and 10) financial/actuarial sustainability.

All the studies (cases and comparison) follow the same structure, divided into three parts: 1) description of the structural reform and the private system/pillar, identifying their advantages and flaws; 2) description of the re-reforms, their political, legal, social and economic features, and whether they have alleviated or resolved the previous flaws; and 3) summary of the re-reforms advantages and pending problems/challenges, as well as recommendations.

This paper succinctly and systematically compares and evaluates the four most radical re-reforms existing in the world at the end of September 2012: Argentina, Bolivia, Chile and Hungary. Argentina and Bolivia closed and integrated the private system or pillar into the public system, and Hungary virtually closed the private pillar. Chile maintained the private system but improved it and strengthened the government’s role. The comparison is divided into three sections: 1) identification of advantages and flaws of the structural reforms and private pension systems before the re-reform; 2) contrasting of legal characteristics of the re-reforms and assessment of their socio-economic effects; and 3) conclusions: re-reforms advantages, pending problems and challenges, recommendations, and potential influence on other private systems. As in the four case studies, this

[5] Four CEE countries have retrenched the private pillar by cutting its contribution but none has entirely closed said pillar (Simonovits, 2011).

[6] A complete version of the study «Re-reforms of Privatized Systems» has been published by *Zeitschrift für auslädisches und Internationales Arbeits-und Sozialrecht (ZIAS)*, No. 3, 2012.

comparison focuses on the fulfilment of the ten selected social security principles, based on the analysis and sources cited in such papers. Nevertheless, the author is solely responsible for the selection and interpretation of data from the cases and the evaluation of the effects of the re-reforms.

4. The economic and social context of the four countries

The four countries have different socio-economic features, key to understanding the context of the reforms; for that purpose five indicators are shown in Table 1: Human Development Index (HDI) scores and rank among 187 nations, gross national income per capita in international dollars, life expectancy, and percentage of self-employment in the EAP.

Table 1. Socio-Economic Indicators of the Four Countries, 2011

Countries	Human Development Index		GNI p/c PPP US$ [b]	Life expectancy [c]	Self-employment [d]	Overall ranking [e]
	Scores	Rank [a]				
Hungary	0.816	38	16,581	74.4	5.5	1.4
Chile	0.805	44	13,327	79.1	20.6	2.2
Argentina	0.797	45	14,527	75.9	19.7	2.4
Bolivia	0.663	108	4,054	66.6	58.5	4.0

[a] Ranking among 187 countries where HDI is calculated. [b] Gross National Income per capita at Purchasing Parity Power US$. [c] Average years at birth. [d] Percentage of the labour force. [e] Average ranking of the rankings of the five indicators, the lowest is the best.

Sources: UNDP, 2011; self-employment (2009) from ECLAC, 2011 and Simonovits, 2013.

Based on those indicators, Hungary ranks first, followed by Chile and Argentina in a virtual tie, with Bolivia lagging behind. The first three countries have very close HDI scores and are considered to have «very high human development» (Chile and Argentina have the highest ranks within LAC), whereas the gap in Bolivia is quite large, the country is in «medium development» and among the four lowest ranked within LAC. The incidence of population poverty was 8.6 per cent in Argentina (in urban areas only and thus underestimated), 11.5 per cent in Chile and 54 per cent in Bolivia (ECLAC, 2011). Data for Hungary are not comparable but show 17 per cent of the population «at risk of poverty» (ESWR, 2010).

5. Advantages and flaws of structural reforms and private pension systems

5.1. Social dialogue

Most structural reforms that privatized pensions in LAC and CEE were implemented without a previous social dialogue, which later led to legitimacy problems (Mesa-Lago and Müller, 2003; Müller, 2003). Chile's military government enacted the reform law with a fully-controlled congress and banned or subdued unions and the media, without public discussion. In Argentina, a social dialogue was held with political parties; the draft law was debated in parliamentary commissions and with trade unions and the association of pensioners, resulting in significant concessions and changes. The Bolivian reform was tied to the privatization of half of all public enterprises, made politically feasible by assigning half of the stocks to finance an annual non-contributory benefit to the elderly, and hence getting support from the major labour federation; there was a limited social dialogue (the employers' association and some unions were not consulted) and the strong government majority in congress approved the law. The Hungarian government debated the reform with trade unions and employers' organizations, and some important changes were introduced in the legal draft but the discussion did not address transition costs; the law was quickly passed by the government's large parliamentary majority and trade union support in exchange for tripartite administration.

5.2. Universal coverage

All indicators of coverage indicate that it was highest in Hungary, followed by Chile, Argentina with a gap, and Bolivia lagging behind. In LAC, coverage tends to increase with income, education, urban location (versus rural) and public sector (versus private sector) – no comparative data were available for CEE. Coverage of the EAP in LAC based on the number of insured was two to three times that of coverage based on active contributors, because in the former it was sufficient to be affiliated and pay a single contribution even though many then left the labour market or did not further contribute, thus leading to an overestimate of coverage. The number of active contributors (who paid in the last month) is a more accurate measure and is used in the comparisons which usually contrast the year prior to the reform and 2007-09. Chile had the highest coverage in LAC although it fell from 64 to 61 per cent, whereas coverage based on surveys including separate schemes was virtually stagnant at 62 per cent. In Argentina, EAP coverage fell from 25 to 20 per cent or from 46 to 45 per cent, according to surveys. In Bolivia, coverage rose from 10 to 11 per cent and, according to surveys, from 14 to 15 per cent, still the third lowest in LAC. The number of contributors declined: from 74 to 55 per cent in Chile, 88 to 39 per cent in Bolivia, and 49 to 38 per cent in Argentina. Theoretically, Hungary's EAP has 100 per cent coverage, but, in reality, it is 70 per cent, due to a 28 per cent evasion rate (Fultz, 2012a). It is still the highest coverage among the four countries.

Coverage of the EAP is influenced by the size of the informal economy and voluntary vis-à-vis compulsory enrolment of the self-employed. In Hungary the informal economy is very small. The self-employed account for 5.5 per cent of the EAP, are required to enrol and pay a reduced contribution so that their coverage is high but many under-declare their income. In Chile, the self-employed represented 21 per cent of the EAP, had voluntary coverage and accounted for only 3.5 per cent of total contributors. In Bolivia, the shares were 58 per cent and 4 per cent respectively (coverage was essentially limited to civil servants and salaried employees in urban formal large enterprises). Argentina's self-employed were 20 per cent of the EAP and had compulsory coverage, thus it was higher than in the other two LAC countries. [7] Coverage of the elderly by all pensions dwindled from 73 to 61 per cent in Chile, but rose from 78 to 84 per cent in Argentina due to corrections that expanded the non-contributory pension, and from 34.2 to 126 per cent in Bolivia (overlapping resulted from data flaws, duplications and fraud) owing to a significant expansion of the non-contributory pension with the highest elderly coverage in LAC. No data were available for Hungary but elderly coverage is reportedly very high.

[7] The self-employed were charged 27 per cent of a predefined income, a serious barrier against coverage. A simplified paying system *(monotributo)* for taxes, social security, etc., was set up for contributors with income at a certain level, consisting of flat contributions, hence facilitating self–employed affiliation.

5.3. Equal treatment

The Chilean reform unified 33 out of 35 separate pension schemes and standardized their entitlement conditions but left out the armed forces and police schemes, precisely those that implemented the structural reform. In Bolivia the reform integrated the basic programme and 38 supplementary schemes, a unique case in the region, but the armed forces, miners and other groups became eligible for early retirement and/or increased pensions. Argentina's reform maintained separate schemes for the armed forces, police, and provincial/municipal civil servants but allowed the latter to join: 40 per cent of the provinces and 10 per cent of the municipalities did so. Hungary did not have separate schemes although the armed forces have more generous entitlement conditions.

5.4. Social solidarity

The public system usually has social solidarity, for instance, a collective fund against risks whereas in the private system all risks are borne by the insured individual. Private systems normally lack endogenous social solidarity as the individual account belongs to the insured worker and is not shared with others; social solidarity was introduced through state financing of non-contributory pensions, a guaranteed minimum pension, and social protection programmes. Elements against solidarity in the private system were**:** a) very low coverage in Bolivia, which, combined with consumption taxes, produced regressive effects (the majority of the uncovered EAP indirectly financed part of the transition costs of the covered minority — also true for Argentina); b) separate schemes or special conditions for powerful groups with better benefits and fiscal subsidies (save Hungary); c) elimination of the employer contribution and increase in the insured contribution (in Bolivia and Chile, not in Argentina and Hungary); d) a gradual rise in the cap on employers' contributions and a reduction in the progressivity of benefits in Hungary; e) the self-employed pay the total contribution (their own and the employer's that they lack, at a reduced rate in Hungary), a significant barrier for inclusion of low-income self-employed; and f) accentuation of gender inequalities.

5.5. Gender equity

Part of the gender inequalities come from the labour market, e.g., women have a smaller share than men in formal salaried work and the opposite in informal work that is often excluded from coverage, and women's wages are lower than men's for the same task (in Bolivia, the women's average income gap vis-à-vis men's expanded by 91 per cent). However, the pension system itself contributes to inequalities because most women are not protected by direct contributory benefits but by derived benefits as survivors or by non-contributory pensions that were restricted. Public pension schemes tend to attenuate gender inequalities (e.g., through transfers from men to women); in Argentina and Hungary, the public system/pillar partially played that role. Conversely, private systems tend to accentuate such inequalities: women receive lower pensions than men because of uncompensated exits from the labour market to raise their children, an increase due to the reform in the years of contribution required for the minimum pension (in Argentina and Chile), lower contribution density than men, and a pension calculation based on the fund accumulated in the individual account and sex-differentiated mortality tables (having a lower capitalized fund and a higher life expectancy, the resulting women's annuity was lower than that of men). In Hungary, the agreed unisex mortality tables would have mitigated female pensioner disadvantages starting in 2013 but they were not implemented.

Examples of gender inequalities follow. Chile's female share of total contributors was only 39 per cent vis-à-vis 61 per cent men whereas shares in the total number of pensioners were 54 and 69 per cent, and replacement rates were 35 and 46 per cent respectively; the same disability-survivors premium was charged to men and women, although the latter have a lower risk incidence and hence paid more than men. Argentina's female share in EAP contributory coverage fell from 45 to 43 per cent and the gap with men expanded, whereas the elderly female share in all pensions declined from 74 to 67 per cent but the gender gap contracted. Bolivia's female share of EAP coverage was 11 per cent, the lowest in the region, and the proportion of elderly women receiving any type of pension was 13 per cent, with 54 per cent in the non-contributory pension, a significant improvement. Hungary data were not available.

5.6. Benefit sufficiency

In the three LAC countries, the insured worker in the private system/pillar could retire, regardless of age, when the balance in the individual account could finance a pension equal to a percentage of his/her average salary (in Bolivia at age 65 if the balance could finance a pension equal to or higher than the national minimum wage). When meeting the requirements, the insured could choose between a fixed annuity for life paid by a commercial insurance company or a variable annuity disbursed by the old-age programme administrator. The mixed system of Argentina provided old-age pensions by two contributory pillars: the first public pillar granted a basic universal pension regardless of income while the second pillar (either in the private or the public system) would provide the bulk of the pension. Conversely, in Hungary the public pillar would finance 80 per cent of the total pension and the private pillar only 20 per cent. Because Chile and Bolivia closed the public system, they had to compensate the insured who moved to the private system for the value of the contributions they had paid to the public system (with a recognition bond or certificate). Chile fully complied with that obligation, whereas Bolivia did not start issuing the certificates until five years after the reform and with significant restrictions; thus only 17 per cent of insured had received the certificate in 2007. In Argentina, the reform granted additional benefits to both those who stayed in the public system and those who moved to the private pillar. Under social pressure, Bolivia made entitlement conditions more flexible and granted benefits to the insured in the public system, hence the number of pensioners was more than three times the initial projection. Hungary also made the entitlement conditions of those who remained in the pure public system more flexible, and projections showed that most of those who joined the private pillar received lower pensions than if they had stayed in the public system. These measures contributed to higher expenditures and fiscal costs in the transition. [8]

In Argentina and Chile, the state guaranteed a minimum pension for those in the private system with a certain number of years of contribution and whose sum in the individual account was insufficient to finance such a pension, with the government paying the difference. However, the reform raised the contribution years required for such a pension in both countries (Argentina also increased the minimum retirement age) and therefore a higher percentage of insured could not qualify. In Chile the minimum pension was insufficient (62 per cent of the minimum wage) and only half of the insured were projected to receive it, whereas in Hungary the guaranteed minimum pension was 25 per cent of the minimum wage. In Argentina, the state-guaranteed minimum public pension was 40 per cent of the average salary during the time of enrolment, but said 40 per cent was later eliminated and all public pensions subject to available annual fiscal resources. Bolivia did not guarantee the minimum pension until 2008 and without state financial responsibility.

[8] Estimated replacement rates for men and women based on the last salary and a contribution of 10 per cent for deposit were different in LAC: 23.9 and 19.7 per cent in Bolivia, but 48.6 and 46.3 per cent in Chile.

Prior to the reform both in Argentina and Chile, there was a non-contributory means-tested pension targeting the poor, which continued thereafter restricted by a cap in the number of beneficiaries, waiting lists, and the availability of fiscal resources. In 2003, Argentina extended such coverage to those over age 70 or disabled, with no other income, and lifted the restriction on the number of non-contributory pensions; beneficiaries doubled. In Bolivia the reform introduced a non-contributory «universal» pension *(Bonosol)* for those 65 and older (restricted to part of the population), regardless of income, and hence collected by those receiving a contributory pension. In 2007, that benefit truly became universal *(Renta Dignidad)* for all residents aged 60 and older (beneficiaries rose 52 per cent in 2007-09); those receiving a contributory pension get a 25 per cent reduction. [9]

All pensions were indexed based on a monetary unit whose value is annually adjusted to inflation in Chile (UF) and Bolivia (UFV). The Argentinian reform stipulated automatic adjustment of all public pensions to wages twice a year, but it was later eliminated to cut fiscal costs and the adjustment was discretionally set by the government annually. The real pension sharply decreased and thousands of lawsuits were won by beneficiaries. The peso devaluation of 2002 further cut the pension purchasing power and 70 per cent of pensioners lived on the minimum pension in 2008; the Supreme Court order to create an index for automatic adjustment of pensions was not enforced. In Hungary**,** all pensions were initially adjusted to wages then changed to an average of wages and prices; a plan to create a public agency to set priced-indexed annuities was not implemented.

5.7. Efficiency and reasonable administrative costs

The private system was managed by private for-profit firms (AFPs in Bolivia and Chile, AFJPs in Argentina) that charged commissions as a percentage of taxable salary for managing the old-age scheme (in Chile, they also charged a fixed-sum commission with regressive effects), and a premium to cover disability-survivor risks transferred to commercial insurance companies. The firms improved the management of individual accounts, the periodic report of the balance to the insured, and the time to process pensions; conversely, they handled their own investment rather than delegating it to more efficient financial institutions. Hungary's accounts were managed by cooperatives or mutual savings associations instead of ad hoc firms as in LAC, and the elected directors were not necessarily the best.

The expected competition did not work well in reality, especially in countries with a small insured market (the number of administrators is a result of the size of such a market). In Hungary, the number of firms shrank from 60 to 21 and the biggest six concentrated 90 per cent of the members. Argentina's number of AFJPs declined from 24 when the system started to 10 when it was closed, concentration in the largest two stagnated at 36 per cent in that period; changes between AFJPs fell from a peak of 7 per cent of insured to 4 per cent, and curbs were imposed on freedom of choice between the public and the private systems. Chilean AFPs fell from 21 to 5 between 1994 and 2008, concentration in the biggest three rose from 67 per cent to 86 per cent, and there were restrictions on changes of AFP. In Bolivia there was no competition but a duopoly; initially, the government assigned the insured to the two AFPs by zones, and for the first five years members could not transfer between the two. Since 2003, only 0.3-0.4 per cent of insured switched AFPs.

[9] Reasons for the universal instead of targeted benefit were: widespread population poverty, high administrative costs of targeting, and the stigma carried by the means test, particularly among indigenous peoples.

Because of poor competition, the assumption that administrative costs would decrease did not materialize. Although not strictly comparable with the rest, the highest costs were in Hungary: deducted from contributions, they peaked at 14.5 per cent in 2007 and were 12.3 per cent in 2010, whereas, as a percentage of the capital, they fell from 3.4 per cent to 1.2 per cent. In 2008, the government capped those charges and slightly reduced both percentages. The average total commission on salary went up in Chile from 2.44 per cent to 2.68 per cent between 1981 and 2008, tantamount to 27 per cent of the deposit of 10 per cent. Argentinian administrative costs as percentage of salary fell from 3.41 to 2.39 per cent (higher than Chile), but as a percentage of the deposit jumped from 45 per cent in 1999 to a peak of 83 per cent in 2001 and fell to 52 per cent in 2007, still more than half of the amount deposited. [10] Because there was no competition and no need for publicity and marketing, Bolivia had the lowest administrative costs of all LAC private systems: 2.21 per cent of salary or 22 per cent of the deposit.

5.8. Social participation in the administration

Prior to the reform in the three LAC countries, most pension funds had tripartite administration through representatives of workers, employers and the government, although the election of those representatives was not always transparent and workers' participation in the total membership board was sometimes a minority. The structural reform eliminated such participation in the firms administering the private system, despite the workers being owners of the individual accounts (in Chile, small AFPs owned by unions had such participation but they eventually disappeared). In Hungary, due to the deal with the unions, the tripartite administration of the public system continued right after the reform but later a conservative government abolished it, although unions participate in managing some small funds.

5.9. State role and supervision

Under privatization, theoretically, the state plays a «subsidiary role» to the market but, in practice, it has a key role, even in countries with the largest share of insured in the private system. Affiliation and contributions are compulsory for salaried workers; the government regulates, supervises and guarantees the system and finances all fiscal costs of the transition (see 6.10). In Argentina and Chile, an ad hoc autonomous superintendence watched over the private system; the superintendence also oversaw the capital market and commercial insurances in Bolivia, and commercial banks and insurance firms in Hungary. In the three LAC countries, the schemes of the armed forces, as well as some provincial/municipal schemes in Argentina, were not submitted to such superintendence, save for general auditing.

5.10. Financial sustainability

In Chile and Bolivia, the reform abolished the employer's contribution and shifted it to the insured worker (a percentage on taxable wages for deposit in the individual accounts plus commission and premium), a breach of the ILO minimum norm that the worker's share should not exceed 50 per cent of the total contribution. In the Argentinian and Hungarian mixed systems, the insured contribution was shifted to the private pillar and the

[10] At the worst point of the severe domestic economic crisis (2001), the worker's contribution was cut to one third, sharply reducing the deposit but keeping the same commission.

employer's went to the public pillar, thus aggravating the deficit in the public system (for the tiny minority that stayed, all contributions went to the public system).

The reform generated transition costs which were fully financed by the state: a) the operational deficit resulting from the closed public system left without contributors but the bulk of pensions (fastest in Bolivia where all insured were forced to move, while slower in the other countries as part of the insured stayed in the public system/pillar); [11] b) the value of contributions paid to the public system for those who moved to the private system (recognition bond/certificate in Chile and Bolivia); c) the differential cost of minimum pensions as well as extra benefits granted in Argentina, Bolivia and Hungary; d) non-contributory pensions, and e) the guaranteed pensions in case of bankruptcy of the administrator, and a guaranteed minimum capital return in a fund performing below the average of all funds.

Chile's fiscal costs of the transition amounted to 5 per cent of GDP in 2008 after almost three decades of reform, although declining from a peak of 7.6 per cent; in Bolivia such costs were 2.5 times the initial projection but excluded the certificate for contributions and additional pensions granted after the reform. Hungary had the lowest costs, although they rose from 0.3 per cent to a peak of 1.2 per cent. Transition costs are usually financed by the entire population through taxes (mostly on consumption), including the poor and other uninsured, with regressive effects; in Hungary, they were covered by additional government borrowing.

From the creation of the system until the re-reform, Chile accumulated the highest capital fund in the individual accounts, rising from 4 to 64 per cent of GDP (it declined in 2009 to 52.8 per cent during the global crisis but rapidly recovered). Bolivia's two funds combined (from individual accounts and a collective fund to finance non-contributory pensions) increased from 4 to 22.6 per cent of GDP, the biggest after Chile. In Argentina the fund value fell from a peak of 14 per cent in 2006 to 11.8 per cent in 2008 due to the global crisis. Hungary had the lowest accumulation but it rose from 1 to 10.7 per cent of GDP.

The average annual real (adjusted for inflation) gross capital return excludes high administrative fees, hence net returns were lower but not published; since the inception of the system until the re-reform, this average declined from 20.6 to 8.8 per cent in Chile, 12.5 to 7.3 per cent in Bolivia, and 9.2 to 8.4 per cent in Argentina. There is no complete statistical series for Hungary but the real annual average return during the 13-year reform was negative.

The average capital return is explained by the portfolio composition by instrument of the invested fund (determined by law and heavily concentrated in public debt except in Chile), as well as by each instrument return. Bolivia lacked a developed capital market and had very few investment options: the share in public debt rose to 75 per cent in 2006 and initially public bonds paid a relatively high interest, thus contributing to high returns. Later the government pressured the AFPs to purchase shares of the collective fund as well as new public bonds, both with low interest rates. Bolivia's second largest investment was in short-term bank deposits also disbursing low interest. These two instruments accounted for 87 per cent of the portfolio in 2007 and little was invested in stocks and even less in foreign emissions (banned part of the time). Therefore, the fund was not seriously affected

[11] Prior to the re-reform, the share of total insured in the public system was: 25 per cent in Hungary, 19 per cent in Argentina, 1.5 per cent in Chile and zero in Bolivia, but the bulk of ongoing pensions was from the public system.

by the global crisis but the portfolio concentration in low-yield instruments led to decreasing average returns.

Argentina had a much more developed capital market but the share of the portfolio on public debt peaked at 76 per cent in 2002 (in the midst of the domestic crisis). Furthermore, the government pressured AFJPs to invest in public bonds, change investment in dollars into pesos (later devalued), and cut the interest rate, hence reducing capital returns. Investment in domestic stocks and foreign emissions had high returns but they suffered a severe fall in value during the 2008 global crisis. Chile gradually diversified its portfolio away from public debt (only 8 per cent) but half of it was concentrated on domestic stocks and foreign emissions in 2007, prompting a sharp decline in capital returns in 2008 due to the global crisis. In Hungary, 70 per cent of the fund was invested in government bonds that paid interest below inflation and the real value of the fund fell during the global crisis and induced a negative rate of return. [12]

Table 2 summarizes the legal features and socio-economic effects of the four structural reforms; statistics usually compare the start year of the reform and that prior to the re-reform.

[12] Before the global crisis, Chile and Hungary introduced «multifunds,» where the insured choose among several risk-related portfolios: as the insured workers approach retirement age, they should move to a more conservative portfolio and 80 per cent of Chilean insured were in the least two risky portfolios when the crisis hit. Those who, in the midst of the crisis, changed from high- to low-risk portfolios lost a significant portion of their funds.

Table 2. Comparative Features and Effects of the Structural Reform in the Four Countries [a]

Principles	Argentina	Bolivia	Chile	Hungary
Social dialogue	Yes	Partial	No	Yes
Coverage [b]				
Of EAP	↓25% to 20%; 46% to 45%	↑10.4% to 11.4%, 14% to 15%	↓64% to 61%; ↑62% to 63%	100%, private ↑33% to 72%
Obligatory self-employed	Existed previously	No; voluntary, no coverage	No; voluntary, tiny coverage	Existed previously
Of the elderly	↑78% to 84%	↑34% to 126% (2008, fraud)	↓73% to 61% (2006)	n.a.
Non-contributory pension	Previous, means-tested, fragmented, restricted by quota and fiscal resources	Yes, universal regardless of income, limited to part of the population	Previous, means-tested, restricted by quota & fiscal resources	Previous, means-tested, for all needy
Equal treatment (separate schemes)	Armed forces, police, 60% of provinces, and 130 separate schemes	Unified armed force scheme (special rules) and 38 supplementary pension schemes	Unified 33 separate schemes, left out armed forces and police, which applied the reform	System was already unified, (special rules for armed forces)
Social solidarity	None in private pillar, some in public system/pillar; state minimum & noncontributory pensions, employer pays bulk of contributions	Not in private system, very low contributory coverage, workers pay all contributions & fees, but state non contributory pension (Bonosol)	None in private system, state minimum & noncontributory pensions, workers pay all contributions and fees, fixed regressive commission	None in private pillar, cut in progressivity of benefits, cap on employer's contribution
Gender equity	Private pillar accentuates inequality (lower female pension, gender-diverse mortality tables) while public system/pillar attenuates it, female/male gap expanded	Private system accentuates inequality (lower female pension, gender-diverse mortality tables), females 13% of all pensions but 54% of Bonosol recipients	Private system accentuates inequality (lower female pension, gender-diverse mortality tables); females 39% of contributors, 35% replacement rate (46% men)	Private pillar accentuates inequality (lower female pension); agreed unisex mortality tables since 2013 were not implemented
Benefit sufficiency				
General	Minimum pension (with more contribution years),additional benefits in public system and private pillar, wider coverage of contributory and non- contributory pensions	Delayed/restricted minimum pension and certificate for contributions (only 17% of affiliates got it), Bonosol «universal» pension, added benefits	Minimum pension (with more contribution years), recognition bond for contributions paid to public system	Low minimum pension, more flexible conditions for those that stayed in public system, private pension would be lower than public
Pension indexation	At government discretion, loss in value led to litigation	To automatic housing unit (UFV)	To automatic monetary unit (UF)	First to wages, then average of wages and prices

Principles	Argentina	Bolivia	Chile	Hungary
Efficiency	AFJP fell from 24 to 10, concentration rose, changes fell from 7% to 4%, freedom of choice restrictions	Only 2 AFPs, state assigned members 50/50% by zones, changes banned for 5 years, later only 0.3% changed AFP	AFP fell from 21 to 5, concentration rose from 67% to 86% in biggest 3, freedom of choice restrictions	Firms fell from 60 to 21, 90% members in biggest 6; accounts not managed by ad hoc firms
Administrative costs				
% of salary	↓ 3.41% to 2.39%	↓ 2.5% to 2.21%	↑ 2.44% to 2.68%	14.5% of contributions and
% of deposit	↑ 45% to 52%	↓ 25% to 22%;no competition	↑ 24.4% to 26.8%	12.3% of capital*;* capped later
State role	«Subsidiary role,» but vital	«Subsidiary role,» but vital	«Subsidiary role,» but vital	«Subsidiary role,» but vital
Superintendence of private system/pillar	Ad hoc, autonomous in theory, under state pressure	Autonomous, also for stocks and insurance, not unified	Ad hoc, autonomous not Unified	Autonomous, also for banks and insurance
Social participation in private system/pillar	Eliminated	Eliminated	Eliminated	For a while then abolished
Financial sustainability				
Capital million US$/%GDP [c]	↑ 32,881, ↑ 11.8% (2008)	↑4,246, ↑22.6% (2009)	↑111,037, ↑64% (2007)	↓12,094, ↑10.7% (2010)
Real capital returns	↓ 9.2% to 8.4% (2008)	↓ 12.5% to 7.3% (2009)	↓ 20.6% to 10% (2007)	Negative [d]
Portfolio composition	↑60% in public debt, 10.8% in bank deposits (low returns)	↓63% in public debt, 20.7% in bank deposits (low returns)	50% in foreign emissions & stocks (high/volatile returns)	70% in public debt (negative return)
Actual transition-cost higher than initial projections	-3.6% of GDP projected for 2040 versus surplus of 0.2%	↑ actual costs 2.7 times higher than initial estimate	↓ from -7.6% peak to -4.9% of GDP (2008)	↑ from -0.3% to -1.2% (2009)

[a] Data refer to the year prior to the reform and the latest year available before the re-reform. [b] EAP coverage first by registered data, second by surveys covering all pensions; elderly coverage by surveys. [c] Capital refer to year before re-reform, gross annual real average return from inception to the year before re-reform. [d] According to Fultz (2012b), the annual nominal capital return in the 13 years was 3.75% whereas the inflation rate was 6.6%.

Note: ↑ rose, ↓ fell; n.a. non-available

Sources: Author's summary based on Hohnerlein, 2013; Mesa-Lago, 2013; Mesa-Lago and Ossio, 2013; Simonovits, 2013; Hungary' capital in US$ from IFPA, 2011.

6. Legal features and socio-economic effects of the re-reforms

The four re-reforms have the common feature of strengthening the government's role in the pension system although their approaches were different: Chile (2008) maintained the private system but improved it; Argentina (2008) closed the private pillar and integrated it into the public system; Bolivia (2010) also closed the private system and integrated it into the public system but guaranteed the individual accounts within the latter; and Hungary (2010) banned new entrants into the private pillar and appropriated most individual account funds, virtually closing the private pillar (it would eventually disappear). This section compares the legal features of the re-reforms, assesses whether they have solved the identified flaws of the structural reform, pinpoints pending challenges and provides recommendations, and explores the potential influence of the re-reforms in LAC and CEE.

6.1. Social dialogue

In 2001, the ILO strengthened the principle of social dialogue: any pension reform should be preceded by debate involving all interested parties. The World Bank now acknowledges that it is critically important to avoid abrupt policy changes and that before dismantling the second pillar it is useful to have a social dialogue (Schwartz, 2011). In Chile, the president appointed an advisory council with representation from all sectors of society to study the re-reform, discuss it in numerous public meetings, and submit a report proposing changes to correct the flaws of the private system; 90 per cent of the council's recommendations were incorporated in the legal draft approved by the parliament. The Bolivian government granted some concessions and signed an agreement with the major trade union federation but some trade unions, the employers' federation and other relevant sectors were not consulted, and the government's ample majority in Congress approved the law. In Argentina and Hungary there was little public discussion and congressional debate on the re-reform, which was rapidly approved by the government's ample majority in Congress without inputs from experts, civil society and interest groups. [13] The shifting of the private-pillar accumulated capital to a public fund affected about four million insured in the private pillar in both countries; the Argentinian insured had not reacted to previous legal options to move to the public system. And yet the re-reform neither generated union protests nor demonstrations by the insured save for a few unsuccessful court suits (Hungary employers' associations and banks did not oppose the re-reform), explainable by the flaws of the structural reform and the private pillar, as well as their inability to generate public support.

6.2. Universal coverage

In LAC, coverage of the EAP and the elderly has increased due to re-reform inclusion policies. Chile's self-employed are mandatorily covered, gradually, and eligible for other benefits including solidarity state subsidies; enrolment jumped 24 per cent in 2009-10 and the mandate just started in 2012. Unpaid family workers now have voluntary affiliation and low-income young workers get a two-year fiscal subsidy as an affiliation incentive (there were few voluntary and young people enrolled by 2010 but it is too soon to evaluate the full effect of the re-reform). A new universal basic non-contributory pension granted to

[13] Some of Argentina's 2007-08 corrections were based on 2001-03 discussions, technical studies and recommendations.

60 per cent of the population with the lowest income eliminated previous limitations (waiting lists, available fiscal resources). EAP coverage rose slightly from 61.2 per cent in 2007 to 61.8 per cent in 2011, still below the record of 62.8 per cent in 2008 before the global crisis reduced it to 60 per cent in 2009-10; on the other hand, comprehensive survey coverage climbed from 63 per cent to 73 per cent in 2006-09 (the most recent data available) with a robust increase in the poorest quintiles; elderly coverage by all pensions declined in 2009 prior to the full impact of the re-reform inclusion policies. Argentina's corrections and re-reform expanded both contributory and non-contributory coverage, also with substantial increments in the poorest quintile. Two different series on EAP coverage indicate a two-point increase in 2007-10: from 35.4 per cent to 37.4 per cent based on contributors, and from 45.1 to 47.5 per cent based on surveys that include all schemes. Elderly coverage by all pensions rose from 84 per cent in 2007 (already growing due to the corrections) to a record 90.4 per cent in 2010; two out of three elderly who previously did not receive a pension are currently included. Bolivia and Hungary re-reforms were in 2010 and there are no data to assess changes in coverage. A Bolivian new series, like the unreliable one on the insured, shows an increase in EAP coverage by one percentage point in 2011; more reliable data based on contributors indicated a similar increase but estimated it at 11.4 per cent in 2010, still one of the lowest in LAC (neither the 2011 nor the elderly coverage in 2008 data are available, but the latter should be 100 per cent).

6.3. Equal treatment

The Argentinian and Chilean re-reforms left separate schemes with superior benefits and fiscal subsidies untouched: in Chile, the armed forces and the police, despite pressure and legal attempts to include them in the general system; in Argentina, 130 separate schemes including armed forces, provincial and municipal civil servants, however, generous schemes for teachers, university staff, researchers, diplomats and the judiciary were reinstated and one for construction workers was added. Bolivia kept the special regime for the armed forces (their subsidized average pension is twice the average of public-private pensions) and granted more liberal conditions to workers in mining, metallurgy and under insalubrious conditions. There were no separate schemes in Hungary (save for special rules for the armed forces) and the situation did not change.

6.4. Social solidarity

It was improved by closing the private pillar that lacked solidarity and moving all insured to the public system with intergenerational solidarity, except in Chile. The latter, however, introduced solidarity in the private system by creating two state-financed benefits: a basic universal solidarity pension (PBS) that ended waiting lists and fiscal restrictions, granted to 60 per cent of the lower-income resident population, age 65 and over, without a pension; and a solidarity contribution (APS) that supplements the contributory pension of those aged 65 and over whose income is low. The APS decreases with the amount of the contributory pension and ends when it exceeds a ceiling, hence it has progressive effects. A remaining element against solidarity is the almost total contributory burden on the worker, although the employer now pays the disability-survivor premium. Argentina abolished the tax deduction for additional contributions to the private pillar that favoured high-income groups; ended high administrative charges; extended coverage in the contributory system, especially for lower income groups; and expanded social inclusion by removing some restrictions for the elderly on contributory pensions, and for mothers on non-contributory pensions. Bolivia's improvements in solidarity include: the universalization and age-cut of the non-contributory pension *Renta Dignidad* that reduced poverty (but there are fraudulent beneficiaries), the semi-contributory pension, the solidarity fund (that redistributes its patrimony in favour of contributors with less income and low pension expectancy), and the solidarity contribution charged to the employer and increasing according to the insured income. In Hungary the collective fund instils some solidarity but several benefits were cut or eroded and entitlement conditions tightened. A common feature against solidarity in all LAC countries is the preservation of special liberal schemes/regimes for the armed forces and other groups, as well as, in Bolivia, the continuous low EAP contributory coverage; and, in Bolivia and particularly Chile, the excessive contribution burden on the worker vis-à-vis the employer that infringes the ILO minimum norm.

6.5. Gender equity

All re-reforms have improved gender equity. Chilean mothers, regardless of income, are granted a voucher for each child born alive, credited to the mother's individual account and accruing annual interest, cashable at retirement age, thus increasing the pension level; the gender-differentiated disability-survivor premium is the same for both sexes but, as women have a lower risk incidence than men, the resulting surplus is credited to their individual accounts; in case of divorce, a judge can order the transfer of funds accumulated in individual accounts during the marriage (up to 50 per cent) from one spouse to the other, usually the wife; housewives have voluntary affiliation and husbands are now entitled to a survivor pension. In Argentina, the expansion of contributory pension coverage reduced the gender gap; mothers with seven or more children and without means receive a non-contributory benefit; a universal allowance is granted for each child below age 18 or disabled to parents who are unemployed or in the informal sector and lack a pension. In Bolivia, insured mothers with 10 years of contribution can deduct one year for each child born alive for a maximum of three years for the mother's solidarity pension. In Hungary, insured women with 40 years of work, including time for child care, are entitled to a pension before the normal retirement age and the previous maternity voucher was raised from two to three years. In LAC, the female shares in pensions have increased, particularly in non-contributory benefits where they are now a majority: in Argentina, the proportion of elderly women receiving all types of pensions (including non-contributory) rose to 92 per cent in 2010, compared to men with a share of 89 per cent; in Chile the share in total solidarity pensions was 63 per cent in 2012 (the female average solidarity pension was 4 per cent higher than the male average); and in Bolivia, the female share in *Renta Dignidad* pensioners reached 54 per cent. No data were available for Hungary. Gender-differentiated mortality tables were eliminated in all countries except in Chile. [14]

6.6. Benefits sufficiency

Except in Hungary, the re-reforms improved benefits. In Argentina, the re-reform increased them: three times the maximum contributory pension reaching US$3,108 in 2012, five times the average contributory pension (combining the two public pillars) to US$560, 73 per cent the minimum pension to US$423, and 100 per cent the basic universal pension to US$200. [15] The minimum pension is 76 per cent of the average pension, whereas the basic pension is about half of the minimum pension. The average replacement rate was 75 per cent of the average salary, but it declined to 43 per cent, taking into account a programme that granted reduced contributory pensions to 2.4 million elderly

[14] Since 2012, the European Union has made gender-differentiated mortality tables in private systems illegal.

[15] According to the law, the state guarantees the insured and pensioners moved to the public system equal or better benefits than those they had under the private system at the time of the re-reform, but it is hardly possible to estimate such pensions.

insured *(moratoria).* [16] In Chile, the PBS value is 50 per cent higher than the previous non-contributory pension and increased income by 34 per cent; the APS also significantly raised the level of contributory pensions.

Bolivia's corrections and re-reform expanded and liberalized entitlement conditions and benefits, which are too complex and diverse to be fully explained here. There are three pension regimes: contributory based on individual accounts, semi-contributory with a solidary subsidy, and non-contributory. The old-age contributory pension is made up of two parts: the insured balance in the individual account estimated by a formula and the contribution compensation (CC). The pension is granted regardless of age if said balance finances at least 60 per cent of the average base salary; to women at age 50 and men at age 55, provided they have the 60 per cent including the CC; and at age 58 for both sexes without the 60 per cent. The semi-contributory pension is granted at age 58 with 10 years of contribution, and is based on contributions plus CC and the solidarity subsidy. In 2012, the average monthly pension from individual accounts was US$346, slightly higher than in the old public system; the semi-contributory pension can be lower than the minimum wage and has a maximum of US$376, the minimum contributory pension equals one minimum wage (US$145) and the contributory pension has a maximum of 60 minimum wages (US$8,700).

Hungary tightened benefits: early retirement was abolished in the public pillar, the minimum pension reduced, a 13th month pension eliminated, and the age of retirement is being gradually increased by four years. Those insured in the private pillar could stay by explicit request, but must increase their contribution and give up their employers' contributions paid to the public pillar, hence 97 per cent of the insured returned to the pure public system: those having positive returns can collect the difference between the accumulated capital and the total amount contributed, whereas those with negative returns receive the full public pension.

The three LAC re-reforms expanded non-contributory pensions. Chilean beneficiaries in PBS and APS doubled in 2008-12, surpassing one million, and elderly poverty was cut by 2.7 per cent. The PBS was paid to 84.5 per cent of those in the six poorest income deciles (60 per cent of the population) and raised income by 72 per cent in the lowest 5 per cent income, but it was improperly paid to 8 per cent in the three wealthiest deciles; a new targeting mechanism terminated some of those improper benefits. Bolivia's *Renta Dignidad* beneficiaries jumped 88 per cent in 2007-12 to 924,446 (8.5 per cent of the total population) and 83 per cent of them lacked another pension; the monthly sum was US$28.50 (8 per cent of the average contributory pension); although rather low, this benefit is the only income received by half of the poor. Argentina's non-contributory pension is 70 per cent of the minimum contributory pension; the percentage of the elderly living in poverty was reduced from 28 per cent to 3.3 per cent in 2003-09. No data are available for Hungary.

Except for Hungary, the re-reform improved or maintained pension indexation. In Chile it continues to rely on the monetary unit automatically adjusted to inflation (UF). This is mostly true in Bolivia: as before the re-reform, indexation is mainly based on the UFV but with some differences among regimes.[17] Argentina restored the adjustment based

[16] Under certain conditions, the elderly insured were immediately granted a reduced pension. They had to acknowledge past debt and pay it through pension deductions.

[17] The fraction based on individual accounts is also adjusted by the pensioners' mortality rate and the fund capital returns, the solidarity fraction for the semi-contributory pension still lacks indexation, and the non-contributory pension is set by the government.

on an index of average wages and total contributions. In Hungary indexation shifted from an average of wages and prices to prices alone, leading to a 10 per cent decline in real pensions.

6.7. Efficiency and reasonable administrative costs

Competition in Chile was stimulated by: a two-year bidding that assigns new labour-force entrants to the AFPs offering the lowest commission, which is immediately applied to previous affiliates; authorization for banks to manage individual accounts; and the replacement of individual by collective bidding in the selection of commercial insurance companies. One more AFP was founded and the concentration decreased slightly. The average total commission initially rose because the abolished fixed commission was incorporated into the variable commission and coverage expansion of disability-survivor risks but, due to bidding, the total commission fell to the pre-re-reform level. In the other countries, under the public system, competition has disappeared. In Argentina all commissions and premium were eliminated; the state agency managing the public system (ANSES) cannot charge any fees. Data on its administrative costs are unavailable. In Hungary, most of the administrators had ceased operations by the end of 2011; the commission and the fee on annual assets were cut substantially and then terminated. In Bolivia, until the public administrator is established, the two AFPs perform all its functions; fees are unchanged. The commission, collected by the AFPs, will go to the public administrator once established, and the premium is collected by a collective-risk fund set at the Treasury.

6.8. Social participation

None of the re-reforms restored direct social representation in pension management although Argentina and Chile set up advisory/monitoring boards, somewhat improving the previous total vacuum. Chile created a users' commission with representation from workers, pensioners and other sectors to monitor the achievement of re-reform goals and publish an annual report on results; a fund to inform and educate the people on the pension system; and centres to respond to public enquiries and help the insured claim benefits and make decisions. Argentina established, within the public administrator (ANSES), an advisory council to supervise and monitor the funds of the unified public system, comprised of 13 representatives: three from trade unions, two from the pensioners' association, two from employers' organizations and the remaining six from the government and banks. Despite Bolivia's constitutional mandate, the re-reform law had no representation of the insured and employers in the public administrator; the latter is legally bound to inform the population on the new system rights and obligations and defend the insured, through diffusion and education campaigns. The abolition of the tripartite participation continues in Hungary.

6.9. State role and supervision

The re-reforms increased the government role with the transfer of the private system to the public system, and the creation/expansion of state-financed benefits (except in Hungary for the latter). In Chile the state provides new benefits (PBS and APS), improves social solidarity and gender equity, promotes competition and guarantees financial solidity. Bolivia added a semi-contributory programme and a solidarity contribution, expanded the non-contributory pension, and significantly increased the Executive powers over the pension system but the two AFPs are still operating. In Hungary the public system was restored but its promised parametric reform has not been undertaken. The private pillar is left with only 2 per cent of the previously insured. All countries save Argentina and

Hungary closed the previous autonomous superintendence overseeing the private system/pillar and replaced it with a new state agency of diverse nature, unity and independence. Chile's new autonomous superintendence unified the control of the entire pension system except for the armed forces and the police schemes. Argentina created a congressional committee (with elected members from both chambers) that monitors the public system funds and their evolution, receives annual reports from ANSES and may give non-binding recommendations; an advisory council of the fund (also lacking binding power) and other public agencies exert external supervision, hence there is not a unified autonomous superintendence as in Chile; the overseeing bodies are weak and ANSES plays a predominant role. In Bolivia, a new public authority, not autonomous, oversees pensions and insurances. Hungary still keeps the old superintendence but it is irrelevant due to the virtual disappearance of the private pillar.

6.10. Financial sustainability

Contributions were largely unchanged in Argentina and Chile, but rose in Bolivia and Hungary. There were no changes in contribution and fees in Chile (a total of 12.69 per cent, 11.43 per cent by insured and 1.26 per cent by employers) but the disability-survivor premium was shifted from the insured to the employer, slightly reducing the former's burden. Argentina contributions are unchanged and continue to be the highest (a total of 27 per cent, 11 per cent by insured and 16 per cent by employers), but commissions and premium were eliminated. Bolivia's current contributions were raised for the additional solidarity contribution paid by the employer (3 per cent) and the insured according to income (rising from 0.5 to 10 per cent); the total contribution of 17.42 per cent is higher than in the old public and private systems, as well as that in Chile, and could gradually rise to 32.71 per cent, surpassing Argentina; the employee pays at least 2.7 times the employer contribution and the self-employed is charged an additional 1.71 per cent for occupational risks; the state does not pay to the contributory regime anymore and can establish other revenue sources without touching fiscal resources. Bolivia and Chile still do not comply with the ILO minimum norm. Hungary's contribution, including the remainder of the private pillar, rose from 33.5 to 34 per cent in 2010-11.

Except for Hungary, the fund accumulated capital kept climbing and achieved new records, the highest in Chile, followed by Argentina and Bolivia, and Hungary lagging behind; real capital returns were positive and increasing in Chile but falling in Bolivia and negative in Argentina and Hungary because 70-82 per cent of investment was concentrated in low-return instruments; except for Chile, the financial sustainability of the re-reform is at risk. Chile's accumulated capital jumped two-fold in 2008-11, reaching a national and regional record of US$153,000 million or 64 per cent of GDP; the real average capital return since the inception of the system rose from 8.8 per cent to 9.3 per cent based on a widely diversified portfolio (however, concentration in foreign emissions and stocks expanded from 50 to 69 per cent). In Argentina, mostly due to the transferred funds from the private pillar, the public fund (FGS) capital increased 48 per cent in 2008-11 to a record US$48,537 million; relative to GDP it grew to 12.3 per cent in 2010 but fell to 10.8 per cent in 2011. The real capital return dropped from 8.4 per cent in 2008 to -3 per cent in 2011 and it was also negative in the first quarter of 2012, mainly because 73 per cent of the fund was invested in public debt (53 per cent) and in new government development projects (14 per cent) that have priority, with low returns. Only 8 per cent was invested in stocks and zero in foreign emissions. Bolivia's accumulated capital and its percentage of GDP kept rising in 2008-10; the re-reform created five funds with additional revenues, hence the capital increased 22 per cent in 2010-11 to records of US$6,583 million and 28.7 per cent of GDP, but the real capital return decreased from 9 per cent to 6.7 per cent because 82 per cent of the portfolio is invested in public debt (57 per cent) and bank deposits (25 per cent) with low yields. Treasury bonds real returns were -3 per cent in 2011 lower than private sector bonds, but zero in stocks and foreign emissions; the new investment policy maintains the priority in these instruments. In Hungary, capital accumulation was the smallest, 10.7 per cent of GDP in 2010, and fell to 0.8 per cent in 2011; the real capital return was -0.5 per cent in 2011 as the share of the fund invested in public bonds that earned real negative interest rose from 70 per cent to 85 per cent (OECD, 2012).

In Chile, fiscal costs of the structural reform were 4.7 per cent of GDP in 2010, but those of the re-reform only 0.68 per cent; financial sustainability was ensured by creating a reserve fund to finance the new benefits, submitted to actuarial reviews every three years (the first one showed that the system will meet its obligations at least until 2030), as well as every five years to assess the effects of key variables on replacement rates and financial needs; a consulting council monitors the re-reform fiscal sustainability and potential modifications needed.

Argentina, Bolivia and Hungary re-reforms were not supported by actuarial studies and apparently they have not been done after the re-reform. Argentina public fund FGS increased revenue from the huge transfer of private pillar-funds but pension expenditure climbed from 3.8 per cent to 6.4 per cent of GDP between 2005 and 2010. The previous public system had a significant annual deficit financed by the state but it was eliminated by shifting/merging about US$9,000 million of private funds into the FGS hence preventing short-run disequilibrium. In the long run, however, the FGS faces substantial obligations and a potential deficit from 3.6 million insured shifted from the closed private system, plus those previously insured in the public system. This risk is aggravated by several factors: population aging, increasing life expectancy, system maturity and persistent informality/low compliance that led to a ratio of 1.36 contributors per one pensioner and falling; most separate schemes are actuarially imbalanced and demand substantial fiscal resources; and negative FGS returns because ANSES can invest up to 50 per cent of the FGS surplus in loans to the state (buying public bonds) and FGS finances family allowances (socially good but financially unproductive). Based on 2009 data (after the re-reform), it is projected that, without fiscal subsidies, the entire pension system deficit will be multiplied by five between 2010 and 2050. In case the public system faces deficit or risk of long-term unsustainability, the government must propose solutions: state subsidies, raised contributions and/or capital returns, cut benefits or a combination of these measures.

In Bolivia, half a million insured and US$5,408 million were transferred from the private to the public system but individual accounts are legally guaranteed. Contribution payments to the public system increased 147 per cent in 2007-11 but overall expenditures are not available, hence the total financial balance cannot be estimated. To the best of our knowledge, there are no long-term projections of the five funds' financial sustainability and, as in the case of Argentina, they may be insufficient to finance future obligations from the insured in the previous public system and those transferred from the private system; negative capital returns in 2011-12 compound the problem. In Hungary, about US$11,000 million, 89 per cent of total assets (based on FIAP, 2011) and close to 11 per cent of GDP, were transferred in 2011 from the private pillar to a state-managed fund and used to finance the deficit in the public system (81 per cent of government debt), reduce fiscal costs of the transition, and pay part of the national debt hence jeopardizing the financial sustainability of the new fund that is responsible for the pension obligations of the three million insured transferred from the private pillar.

7. Conclusions

7.1. Comparative performance of re-reforms

Legal features and socio-economic effects of the four re-reforms are summarized in Table 3 focusing on the ten social security principles. All re-reforms have improved most structural reform flaws, save Hungary.

- **Social dialogue**: Chile wide, Bolivia partial, none in Argentina and Hungary.
- **Coverage**: increased both for EAP and elderly (unchanged in Hungary); self‒employment affiliation made gradually mandatory in Chile.
- **Equal treatment**: separate schemes continue, some added, Hungary unchanged.
- **Social solidarity**: improved substantially in all LAC, less in Hungary.
- **Gender equity**: improved in all.
- **Benefits sufficiency**: improved in LAC, tightened in Hungary.
- **Efficiency and reasonable administrative costs**: competition and premium eliminated in Argentina and Hungary, unchanged in Bolivia, improved in Chile.
- **Social participation**: none restored tripartite representation; advisory council in Argentina and user's commission in Chile monitor re-reform but lack decision power.
- **State role and supervision**: state role increased in all; old superintendence replaced in LAC (continues in Hungary), unified and autonomous in Chile but not in the rest.
- **Financial sustainability:** strong in Chile, weak in the rest, particularly in Hungary. [18]

The best performance has been in six principles: coverage, social solidarity, gender equity, benefit sufficiency, reasonable administrative costs, state role and supervision (the latter partially). The weakest performance is in four principles: social dialogue, equal treatment, social representation (slight improvement in two) and, particularly, financial sustainability (save in Chile). All LAC re-reforms achieved progress in most social principles but Argentina, Bolivia and Hungary face serious long-term challenges in financial sustainability. Hungary re-reform failed to correct most flaws of the structural reforms and added new problems.

[18] The closing of the private system/pillar in Argentina, Bolivia and Hungary eliminated fiscal transition costs, but the obligations of those insured moved to the public system must be financially guaranteed in the long run.

Table 3. Comparison of Legal Features and Socio-Economic Effects in the Four Re-reforms

Principles [a]	Argentina	Bolivia	Chile	Hungary
Social dialogue	No	Partial	Wide, with all sectors	No
Coverage [b]				
Of EAP	↑ 45% to 47.5% (2010)	11.4% (2010, no data 2011)	↑ 61% to 62% (2011)	70-100% unchanged
Obligatory self-employed	Existed previously	No, except consultants	Since 2012, gradually	Existed previously
Of elderly	↑ 84% to 90.4% (2010)	126% in 2008 (fraud)	↓57.2% (no data 2010-11)	n.a.
Non-contributory pension	Ibid, expanded, means-tested	Expanded, universal, regardless income	Expanded to 60% pop. lower income, means-tested	No change
Equal treatment (separate schemes)	Continues 103 separate schemes; restored various separate schemes	Restored liberal conditions for armed forces and other groups	Armed forces and policemen still separated	System continues unified, with special rules for armed forces
Social solidarity	Coverage extension to low income, women, elderly, strong effect in low quintiles	*Renta Dignidad*, solidarity fund and contribution, semi-contributory branch	Basic solidarity pension (PBS), progressive state solidarity subsidy (APS)	Minimum pension 25% of average net wage and cut by 20%
Gender equity	Cut in coverage gap, non-contributory pension for mothers with 7+ children, universal child benefit	*Renta Dignidad* expanded women coverage, cut in retirement age for each child born alive	Women 63% of PBS/APS, fund division among spouses universal maternity voucher, no change in mortality tables	Liberal widow/widower pension, universal maternity voucher, unisex mortality tables not implemented
Benefit sufficiency General	Higher minimum, basic and average pension, pension equal/better than in closed private system (not clear how?)	Cut age/contribution years, guarantees individual accounts, *Renta Dignidad* truly universal, low but crucial for poor	PBS higher that previous benefit, ASP increases pension level	60% replacement rate, full public pension for those back to public system (others cut), raised retirement ages
Pension indexation	To wages and contributions	To automatic unit, but varies	To same automatic unit	To prices: loss pension value
Efficiency	Competition ended	Competition will end when Public Administrator created	One more AFP, new tools for increased competition	Few firms left will disappear
Administrative costs	Commission/premium ended	Unchanged	Same but should decline	Lower but irrelevant

Principles [a]	**Argentina**	**Bolivia**	**Chile**	**Hungary**
State role	Rising	Rising (stronger Executive)	Rising	Rising
Supervision	Congressional Commission w/o enforcement power	Superintendence not autonomous	Unified and autonomous Superintendence	Superintendence will Disappear
Social participation	No, advisory council w/o decision power	No, except in armed forces Scheme	No, users' commission year report, w/o decision power	No
Financial sustainability				
Capital million US$,% GDP	↑ 48,537, ↓10.8% (2011)	↑ 6,583, ↑ 28.7% (2011)	↑ 153,000, = 64% (2011)	↓ 1,333 (-89%), ↓ 0.8% (2011)
Real capital returns	-3% (2011-2012)	↓ 6.7% (2011)	↓ 9% (2009-2011)	↓ -0.5% (2011)
Portfolio composition	↑73% in public debt & state dev't projects (low returns)	↑82% in public debt & bank deposits (low returns)	↑69% in foreign emissions & stocks (high/volatile returns)	↑85% in public debt (negative rate), 6% bank deposits
Long-term equilibrium	No actuarial study, projected 5-fold jump in deficit by 2050	Neither actuarial study nor projections done, high risk	Three-year actuarial review, in equilibrium until 2030	Neither actuarial study nor projections done, high risk

[a] Data usually refer to the year prior to the re-reform and the latest year available, except when specified. [b] EAP coverage based on statistics (Bolivia on surveys); coverage of the elderly on surveys.

Note: ↑ rose, ↓ fell, = stagnant; n.a. non-available

Sources: Based on Hohnerlein, 2013; Mesa-Lago, 2013; Mesa-Lago and Ossio, 2013; Simonovits, 2013; Hungary's capital in US$ from FIAP, 2011, portfolio composition from OECD, 2012.

7.2. Pending problems/challenges of the re-reforms and recommendations

The structural reform was considered a panacea by international financial organizations (IFO) and many experts, and the re-reform should not be presented as such. Both types of reforms must be preceded by a social dialogue and actuarial studies, be carefully designed taking into account the peculiarities of each country, and have as their main goal the improvement of social security principles. The re-reform does not necessarily have to close the private system, as the Chilean case shows that it could be kept and substantially improved. Closing the private system/pillar is viable too with the cautions noted, particularly on financial sustainability.

Social dialogue: A comprehensive, well-designed and with a long-term perspective reform is advisable for most countries to solve pending problems/challenges, preceded by a wide social dialogue and professional actuarial studies. Hungary urgently requires a parametric reform of the public system.

Needed data: Statistical series on the ten key principles should be developed, properly connected with data prior to the re-reform, clearly defining affiliates and contributors, for a more accurate evaluation of the re-reform effects.

Coverage: More innovative and effective mechanisms to achieve mandatory coverage of the self-employed and other informal groups are necessary in LAC. In Bolivia, contributory coverage remains low and stagnant due to a large informal sector and evasion in the formal sector; mandatory affiliation of self-employed consultants, although positive, will not substantially raise coverage of the overall group; the solidarity contribution should provide an incentive for affiliation to low-income self-employed and similar groups.

Equal treatment: Persisting system fragmentation (save in Hungary) requires incorporation of the armed forces and other separate schemes with superior conditions/benefits (as well as those restored in Argentina and Bolivia), and fully-financed special benefits by the insured without fiscal subsidies.

Non-contributory pensions: Argentina needs to establish a unified non-contributory means-tested basic income scheme for the poor, and end pensions granted by Congress. Bolivia's *Renta Dignidad* data base should be clean of duplications and fraudulent beneficiaries, and steps taken to include potential beneficiaries excluded due to language, lack of information on rights and/or irregular ID. Chile should eliminate the small percentage of «free riders» through a more effective application and periodic verification of the new targeting mechanism.

Impact on poverty: A study should be conducted in all countries to measure the impact of the re-reform and, particularly the new or expanded non-contributory pensions on poverty, as well as on the affiliation and payment of contributions to the contributory system.

Social solidarity: Remaining anti-solidarity elements in Bolivia could be alleviated (low contributory coverage, special benefits for some groups, uncertified compensation for contributions). Bolivia and Chile must correct the excessive contributory burden on the worker vis-à-vis the employer to meet the ILO minimum norm.

Gender inequities: Those generated by the labour market should be corrected through legal means (e.g., enforcement of equal salary earned by women and men for the same work), but also promoting higher female labour participation through training and further development of public day care centres, as well as a gender neutral retirement age.

Benefit sufficiency: Individual accounts are guaranteed by Bolivia's public system, whereas in Argentina the public pension earned by the insured moved from the closed private system must be equal or better than the private pension owed at the time of the re-reform; those rights ought to be protected. Hungary shall introduce individual accounts in the pure public system for those moved from the private system.

Administrative costs: Bolivia's still are low but an assessment is suggested to check if they are adequate for a public system. Chile's advisory council and users' commission should further evaluate the impact of the re-reform on commissions and premium.

Social representation: Restore participation of workers and employers in the administration of the pension system, with decision power.

Information: Poor knowledge of the pension system persists among insured and the population; the available information is very technical and not adjusted to the educational level of most people hence it should be simplified and the population better educated (e.g., through an education fund as in Chile). Argentina, Bolivia and Hungary should provide to all insured periodic and clear information on accumulated pension rights and the pension level based on their contributions. Chile's «multifunds» helped protect most insured during the global crisis but the information supplied by AFPs and private advisors needs improvement to make better selection and shifts among funds.

Compliance: To further improve it, in Chile the insured worker should play a more active role in detecting employer's payment delay by checking the quarterly report sent by the AFP, and the latter promptly inform the worker of such a delay; stronger sanctions for those that infringe the law are needed (as done in Bolivia's re-reform law).

Supervision: A unified and autonomous supervisory pension agency overseeing all schemes is needed. Argentina's congressional commission recommendations are not binding, whereas Bolivia's supervisory agency is not independent from the strong Executive.

Financial sustainability: In Argentina the funds transferred from individual accounts that were merged with the public PAYG system funds should be invested in accordance with strict legal rules that maximize their capital return and minimize their risk; and the fund (GFS) converted into an autonomous institution, not managed by ANSES but by a collective technical body and without government intervention; also to prevent new litigation, resources are necessary to pay for settled lawsuits and debt recognized for missed adjustments as established by the Supreme Court.

Portfolios: In Argentina, Bolivia and Hungary, public funds (and Bolivia's individual account fund) need to diversify investment away from excessive public debt and bank deposits that pay low or negative real returns. Chile's very high share invested in foreign emissions is exposed to high risks and losses in case of another global crisis.

Actuarial studies: Argentina and Bolivia failed to conduct actuarial reviews on the re-reform long-term effects (liberalization of entitlement conditions, expanded non-contributory pensions, new solidarity funds, etc.), which should be done as soon as possible, and needed adjustments implemented. Hungary should halt using former private fund pillar resources to pay transition costs and fiscal deficit, and secure the financial/actuarial sustainability of the public pension system conducting an actuarial review.

Monitoring the re-reform: Chile's annual reports of the advisory council and users' commission should continue, as well as the actuarial evaluations stipulated by law to ensure that the necessary funds are assigned in the budget for the payment of new benefits. Similar mechanisms are needed in the other countries.

7.3. Potential influences of the re-reforms

The re-reforms probably will have influence on other total or partial private pension systems in LAC and CEE. Four years have elapsed since the re-reforms in Argentina and Chile and two years since Bolivia's, and no other re-reforms have been enacted in LAC, but it should be noted that eleven years elapsed from the Chilean structural reform in 1980 and the second one in Peru in 1993.

Corrections, however, have taken place to improve both the private pillar and some social security principles. Uruguay implemented changes, similar to those in Chile and Argentina, to extend coverage, increase competition, reduce administrative costs, establish a single payment for all taxes and grant one year of work to female insured for each child born alive. Peru allowed the insured in the private system to return to the public one in some cases, established a non-contributory pension for the poor, and is debating whether to set a ceiling on the total commission on wages and add a commission on the capital return. Mexico is gradually expanding mandatory coverage to the self-employed, extended the private pillar to civil servants (who had retained a separate public scheme), and improved competition significantly with innovative approaches: new entrants to the labour market must join the fund with the highest capital return, and there are no restrictions to shift to such a fund. El Salvador followed the latter measure and also created a non-contributory pension targeting on the poor, but faces high fiscal costs of the transition and other problems. Costa Rica's system is in fairly good shape but might consider a few changes such as completing the universalization of the means-tested non-contributory pension and introducing a universal maternity voucher. So far Colombia, Dominican Republic and Panama have not implemented significant changes, except for multifunds in the first (Calvo et al., 2010; Mesa-Lago, 2012).

In CEE, several countries retrenched the contribution allocated to the private pillar: Poland cut it by two-thirds in 2011; Estonia suspended the government contribution to the private pillar in 2009-11 but fully restored it in 2012; Latvia reduced the diversion to the private pillar from 8 per cent to 2 per cent but is planning to increase it to 4 per cent in 2013; and Lithuania cut it from 5.5 to 1.5 per cent in 2009-11 and it is not clear if it will raise it to 2 per cent in 2013. It is difficult to predict if these temporary measures will become permanent and if other more profound reforms take place (Fultz, 2012a, 2012b). Slovenia has no plan to introduce a private pillar but the Czech Republic is expected to so in 2013 (Simonovits, 2011).

There are significant asymmetries in the transmission of information on the structural reform and the re-reform. The former was widely diffused and financially and technically supported by IFO (World Bank, IMF, OECD, Inter-American Development Bank), as well as by the International Association of Pension Fund Administrators (FIAP) and its biannual newsletter and many publications. Within some countries there are foundations that also promoted the structural reform, e.g., CIEDESS in Chile, the American Heritage Foundation and the Cato Institute in the United States. All these entities, plus economic conglomerates and international insurance companies, invested substantial resources to promote the structural reform, holding international and national seminars and forum, and financing well-known reformers to sell that model throughout the world.

On the other hand, the re-reform has considerably fewer channels of diffusion and financial support: the ILO and the International Social Security Association have reported re-reforms through academic articles in the *International Labour Review* and the *International Social Security Review*, as well as news in *Social Security Observer.* In LAC, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) also provides some information. In addition, the re-reform confronts powerful opposition from the same international and national sources that promoted the structural reform.

Hopefully the publication of these studies will help to inform and disseminate the re-reform, its features, effects and challenges.

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Annex

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