

The Challenge of Public Pension Reform

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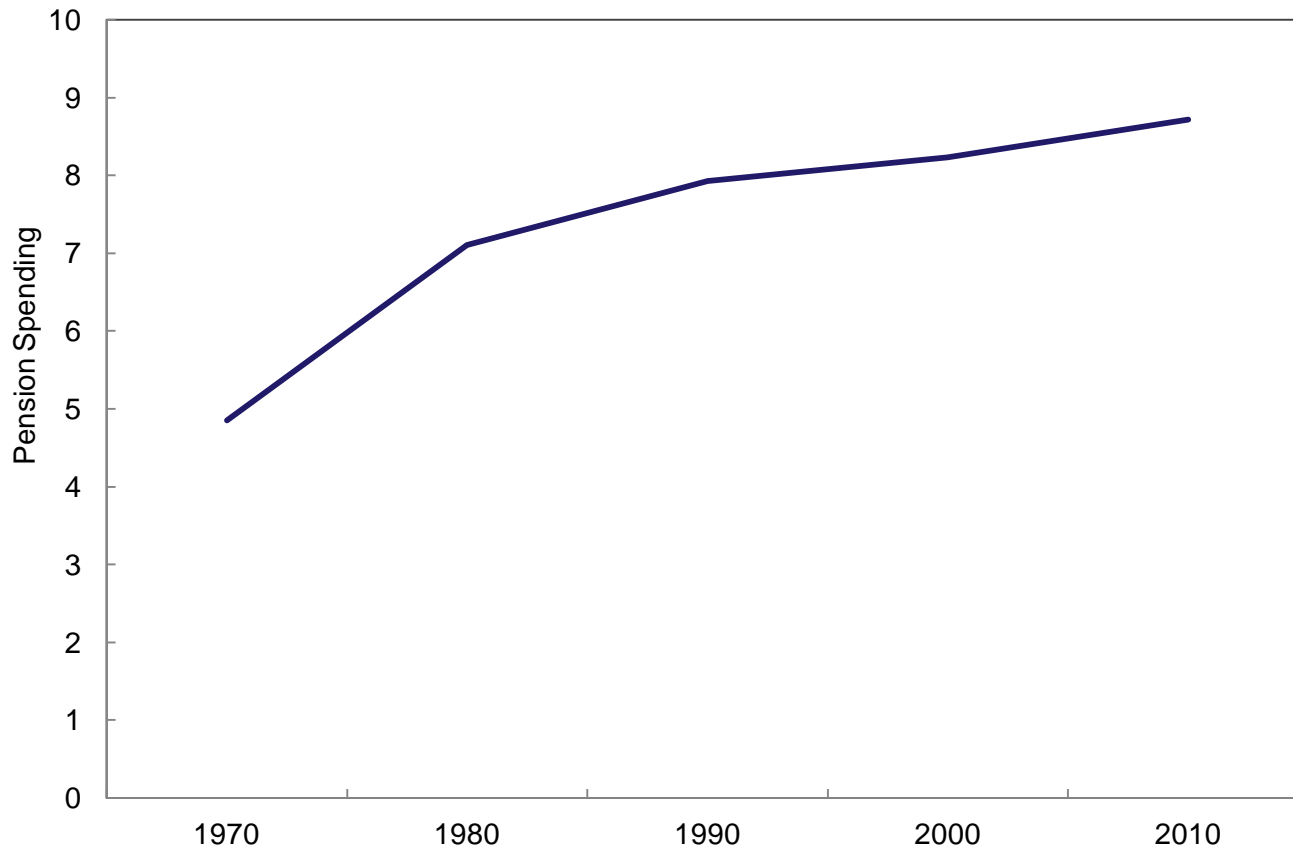


Plan of Presentation

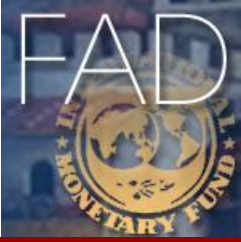
- ❑ Trends and drivers of public pension spending
- ❑ Projected spending increases and risks to projections
- ❑ Pension reform options
- ❑ Pension reforms in the Caribbean

After rapid increases over 1970-1990, reforms have slowed spending growth in advanced economies

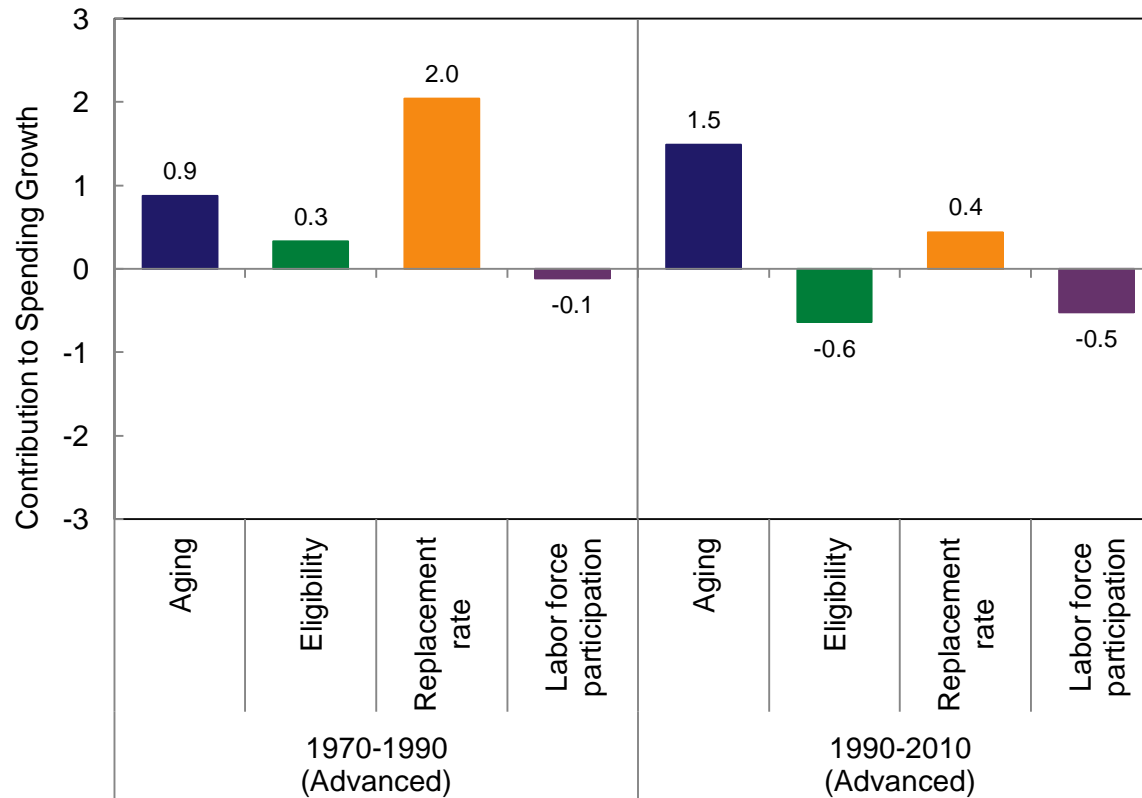
Evolution of Public Pension Expenditures in Advanced Economies, 1970–2010
(Percent of GDP)



Higher replacement rates and aging have been the main drivers in advanced economies

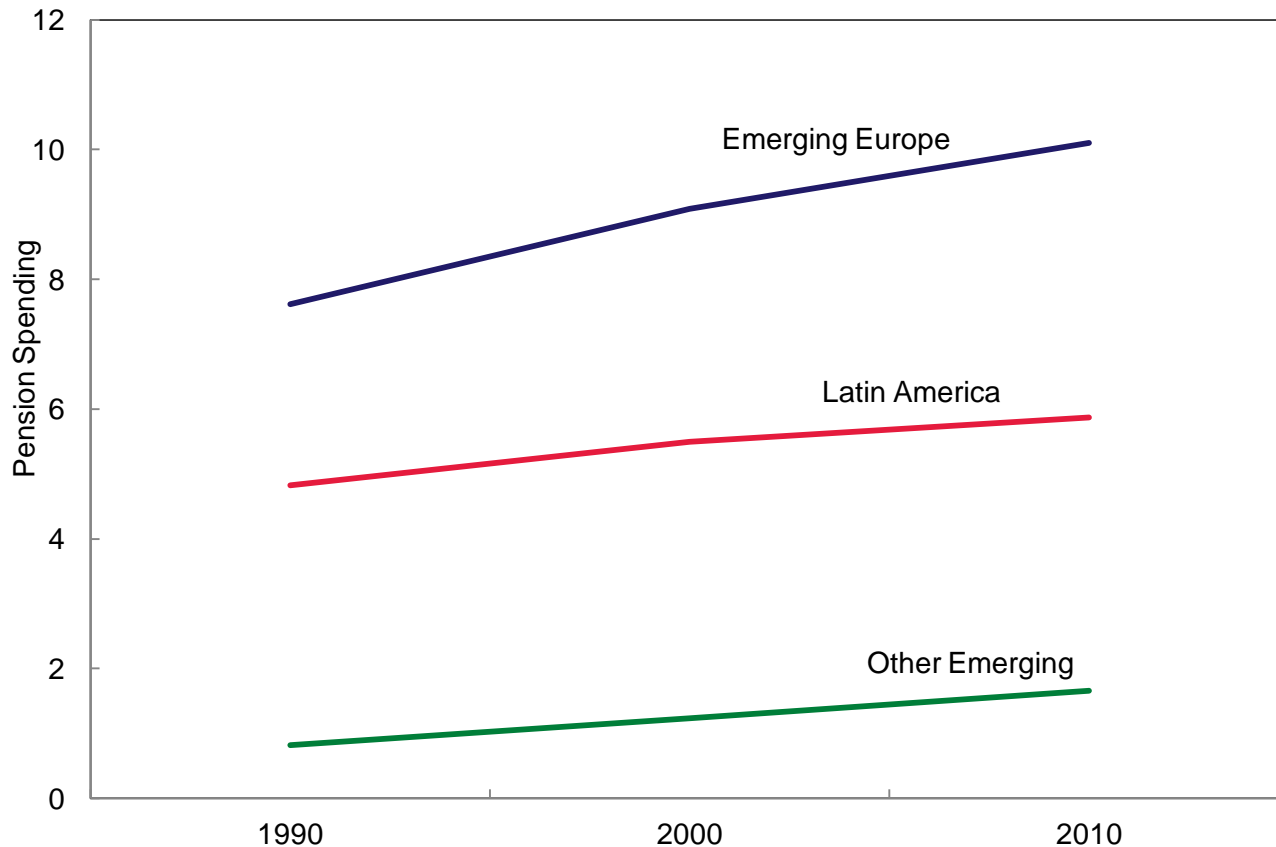


Evolution of Public Pension Expenditures in Advanced Economies, 1970–2010
(Percent of GDP)



Large increases in pension spending in emerging economies, but from a low level outside Europe

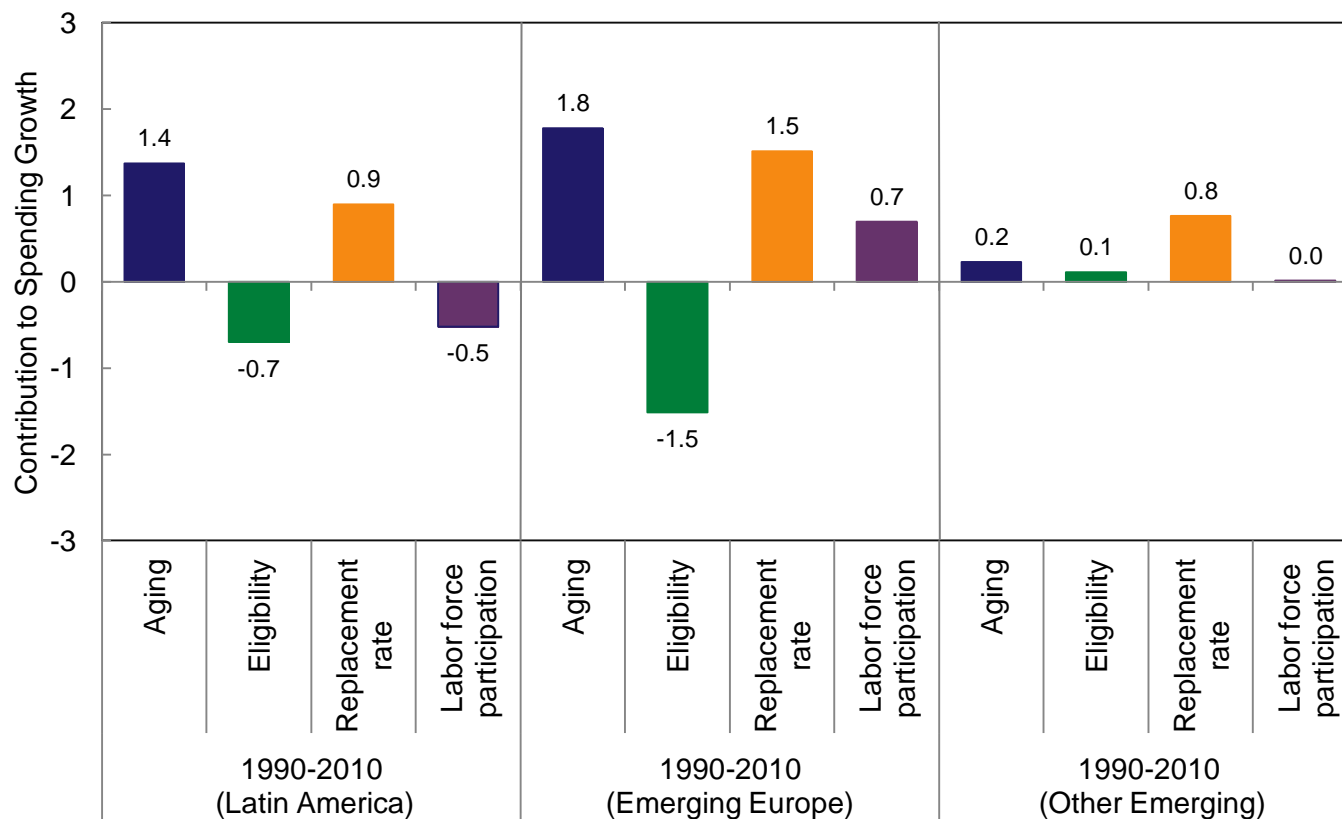
Evolution of Public Pension Expenditures in Emerging Economies, 1990–2010
(Percent of GDP)



Again, higher replacement rates and aging are the main drivers



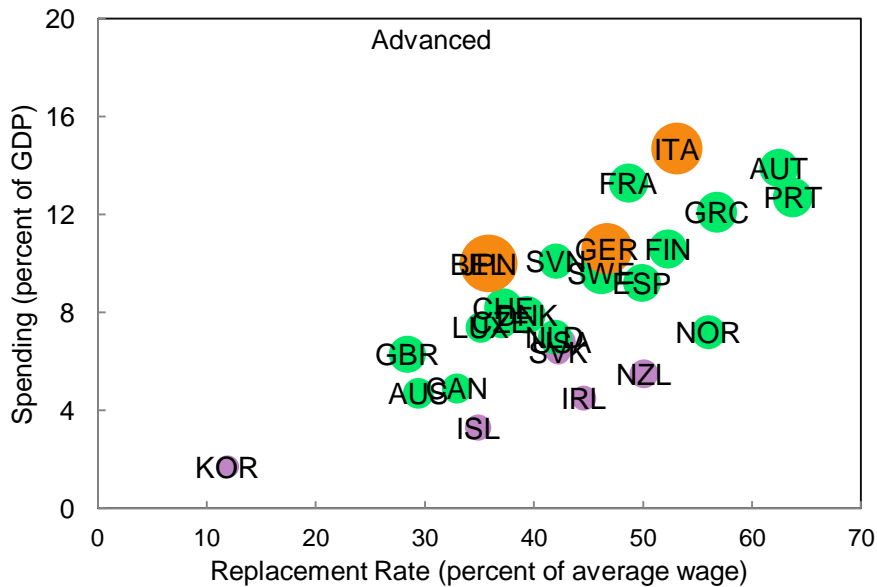
Evolution of Public Pension Expenditures in Emerging Economies, 1990–2010
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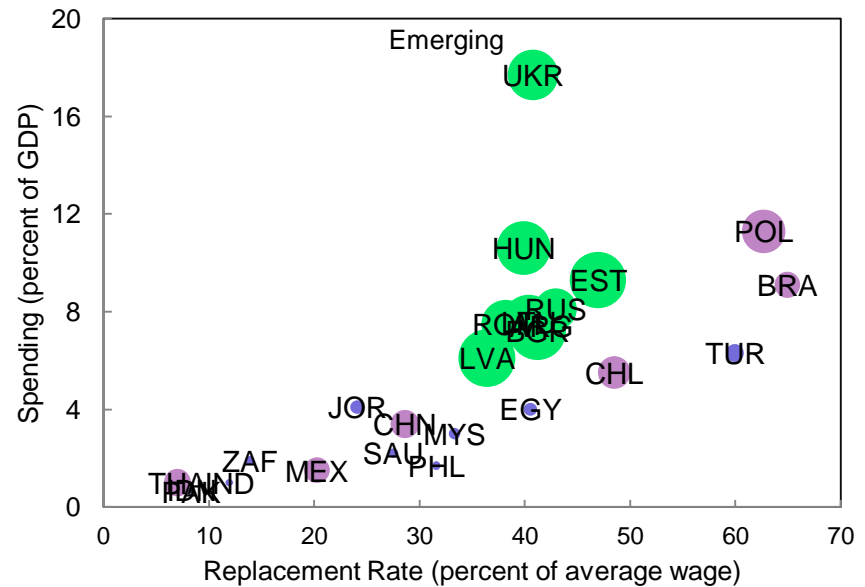
The variation in spending reflects differences in aging, system generosity, and coverage rates



Pension Spending, Replacement Rates, and Aging, 2010



- Old-age dependency ratio=0-10
- Old-age dependency ratio=20-30

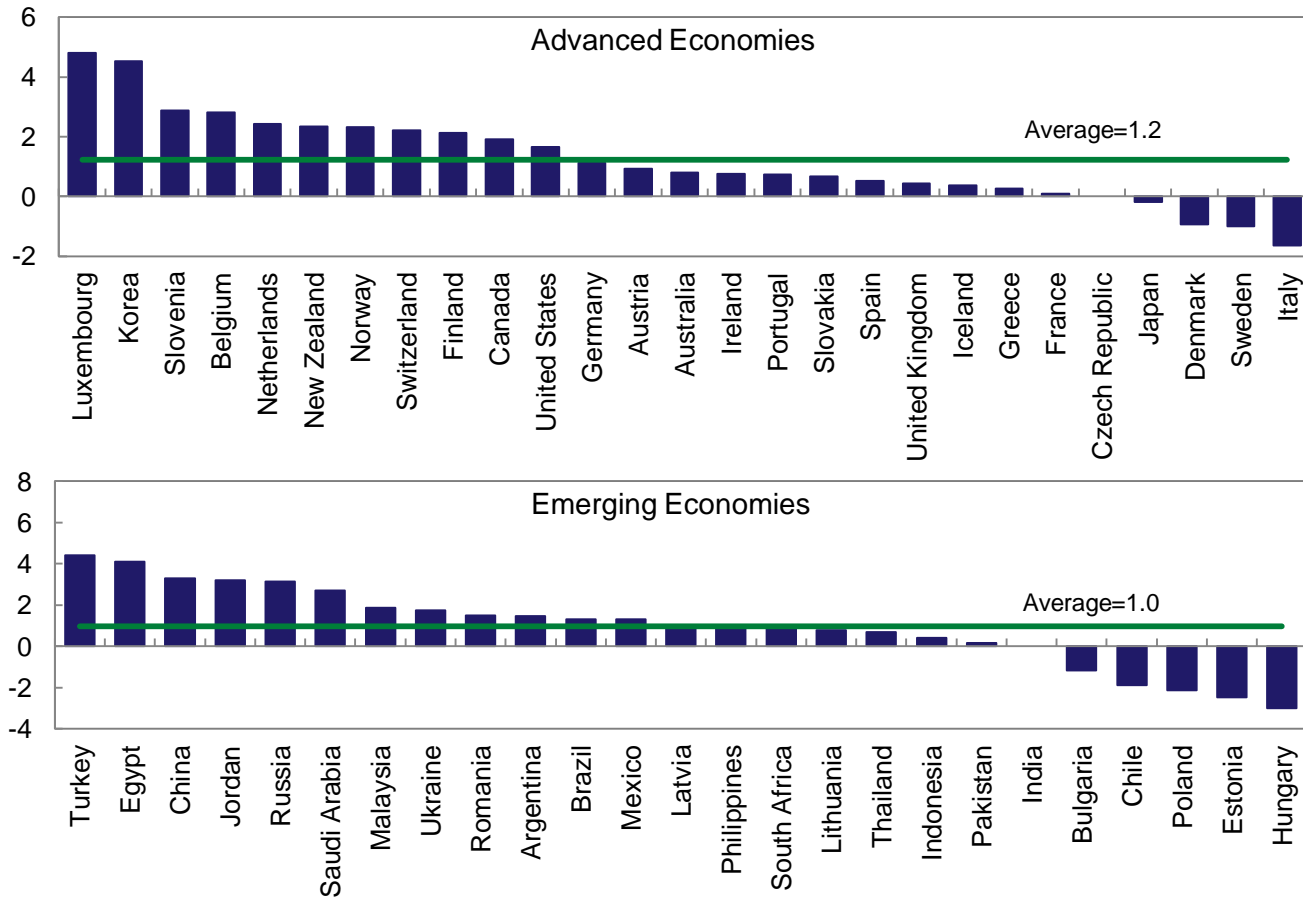


- Old-age dependency ratio=10-20
- Old-age dependency ratio=20-30
- Old-age dependency ratio=30-40

Spending pressures will intensify in many countries



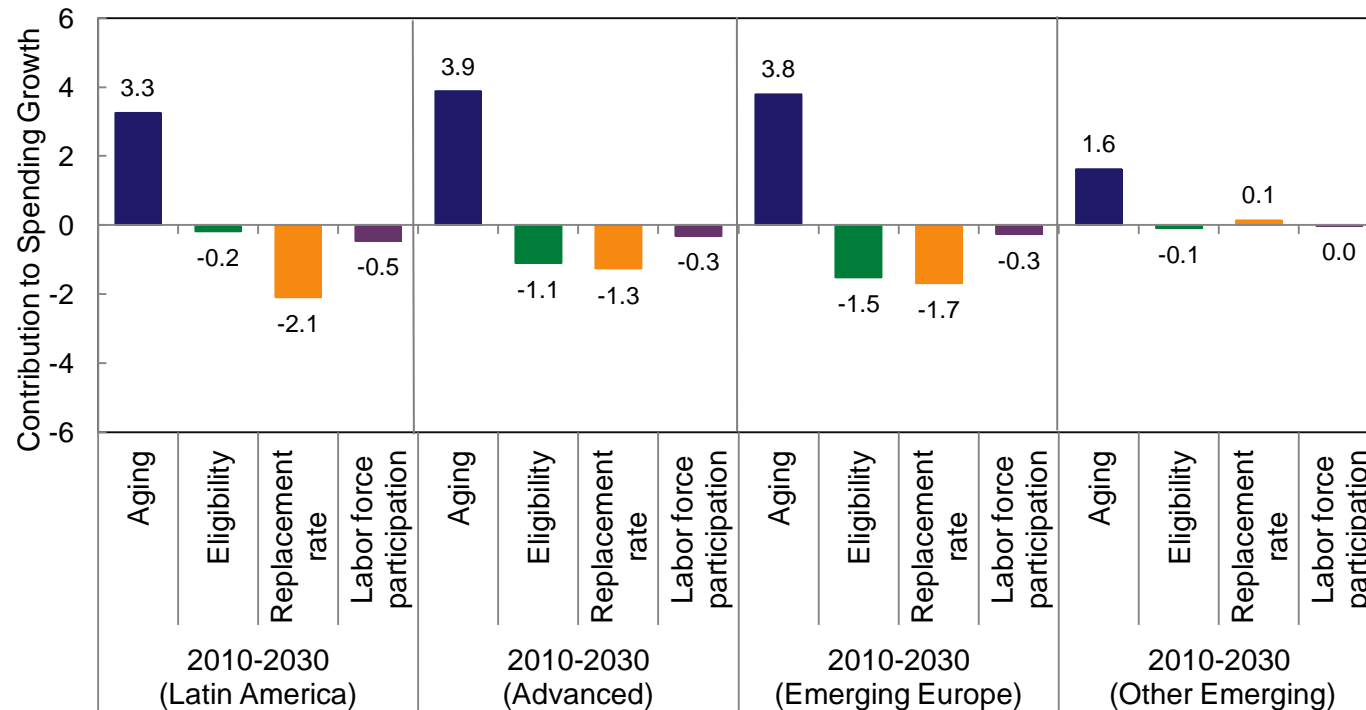
Increase in Pension Spending, 2010–2030 (Percent of GDP)



Enacted reforms are expected to help contain impact of population aging on spending



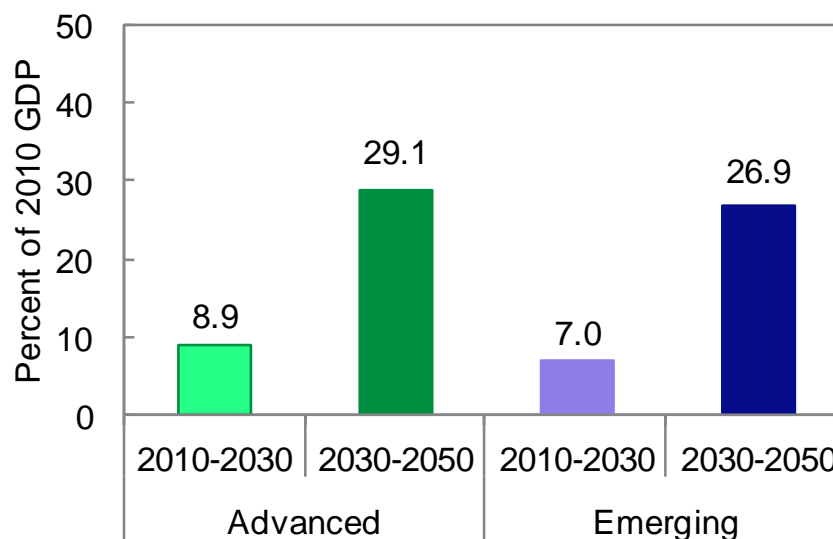
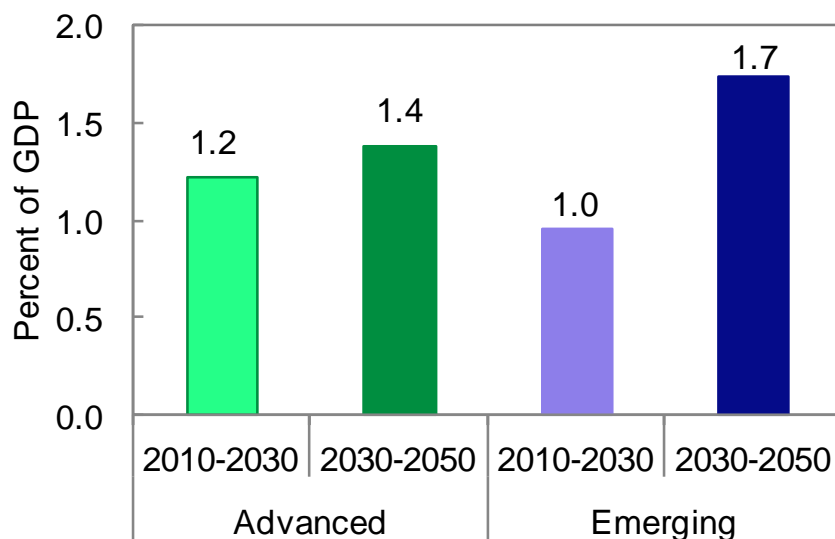
Evolution of Public Pension Expenditures, 2010–2030
(Percent of GDP)



The challenge for the emerging economies becomes more pronounced after 2030

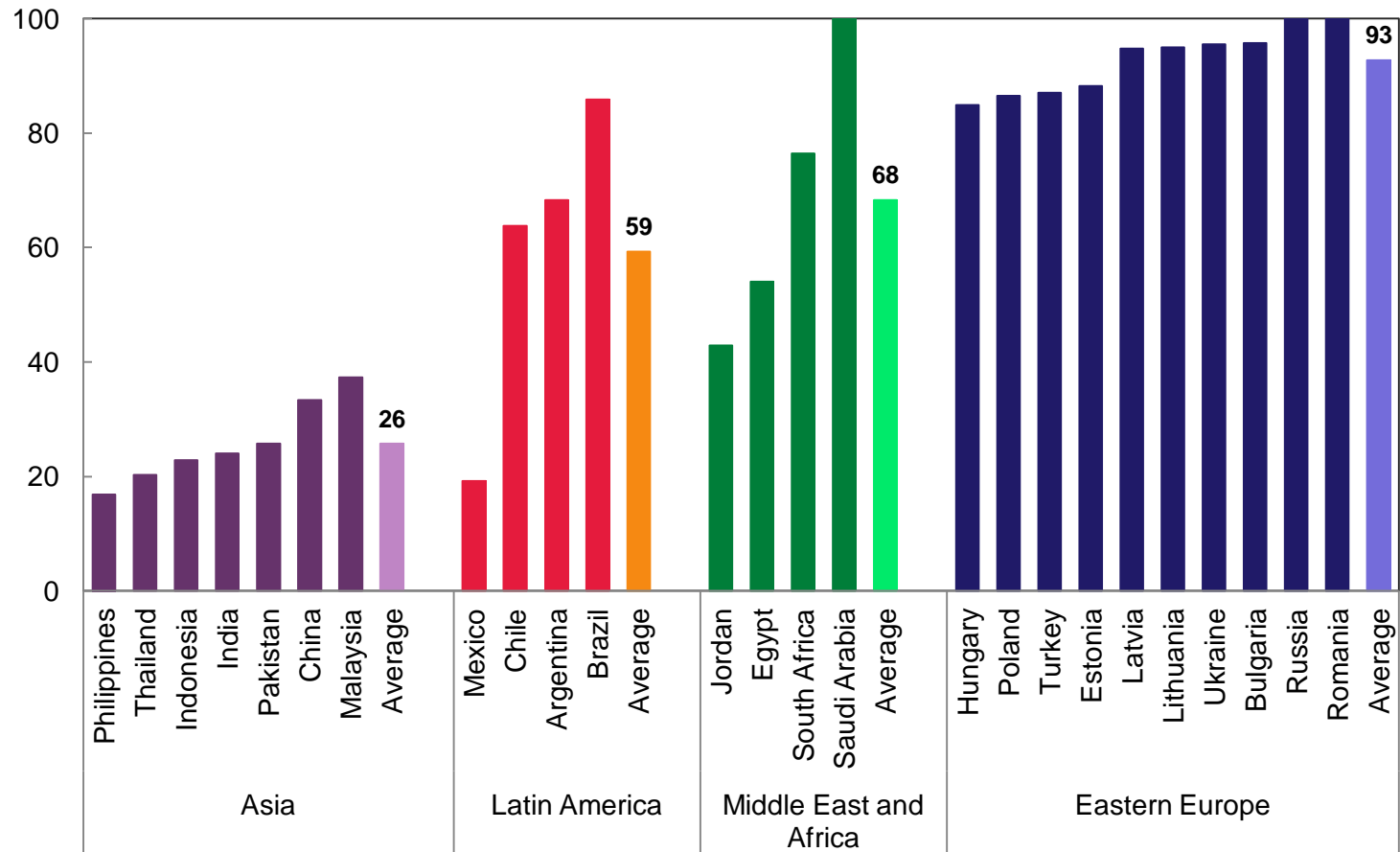


Evolution of Public Pension Expenditures, 2010–2050



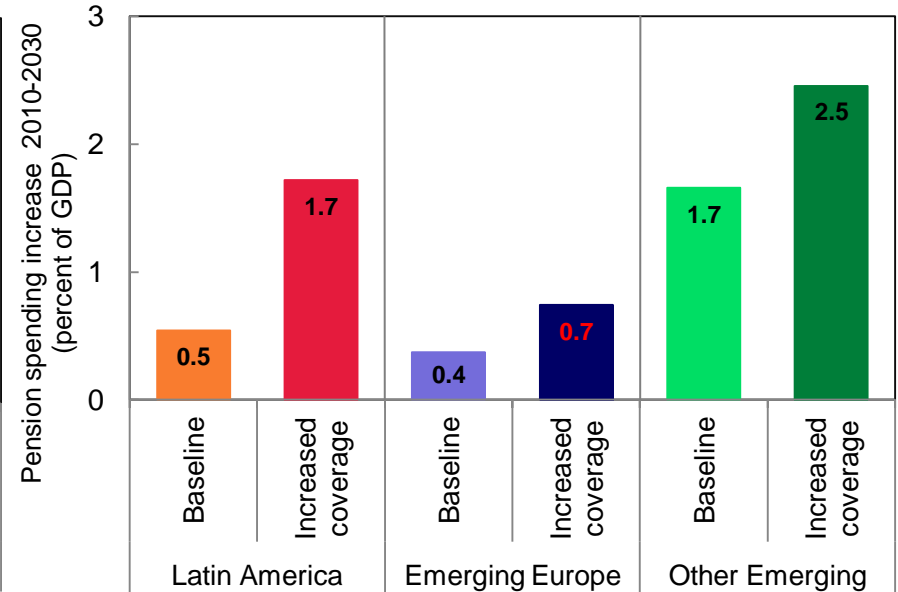
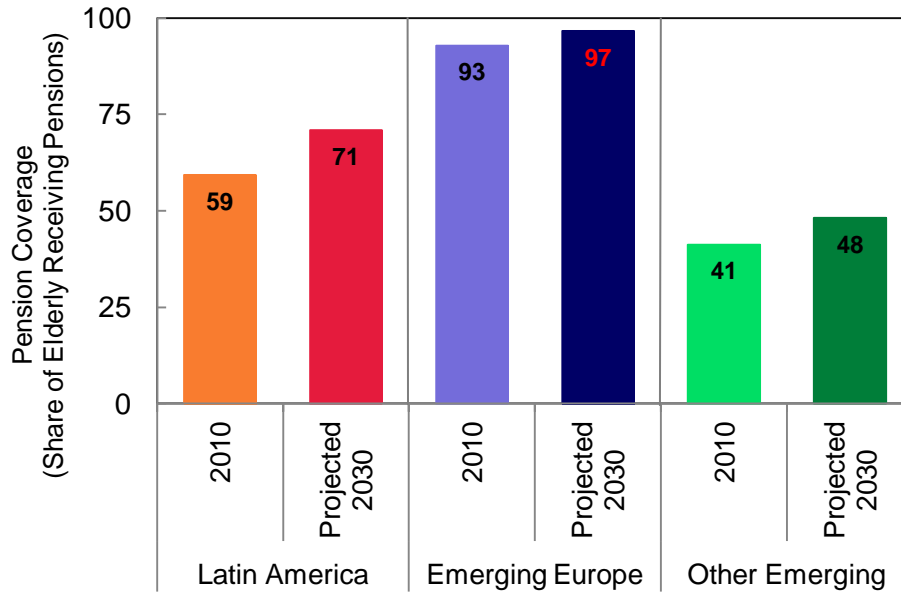
Pension coverage needs to be extended

**Pension Coverage in Emerging Economies
(Pensioners to Population Above Retirement Age)**



Pension coverage needs to be extended

Pension Coverage in Emerging Economies



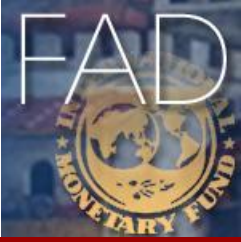
Considerable uncertainty and upside risks to projections



- ❑ High old-age dependency ratio
- ❑ Low productivity
- ❑ Low labor force participation
- ❑ Reform reversal

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Pension reform options: general considerations



- ❑ Pension reform can play a role in fiscal adjustment strategies
- ❑ Pension reforms raise important equity issues
- ❑ Some pension reforms can have a positive impact on labor supply and growth



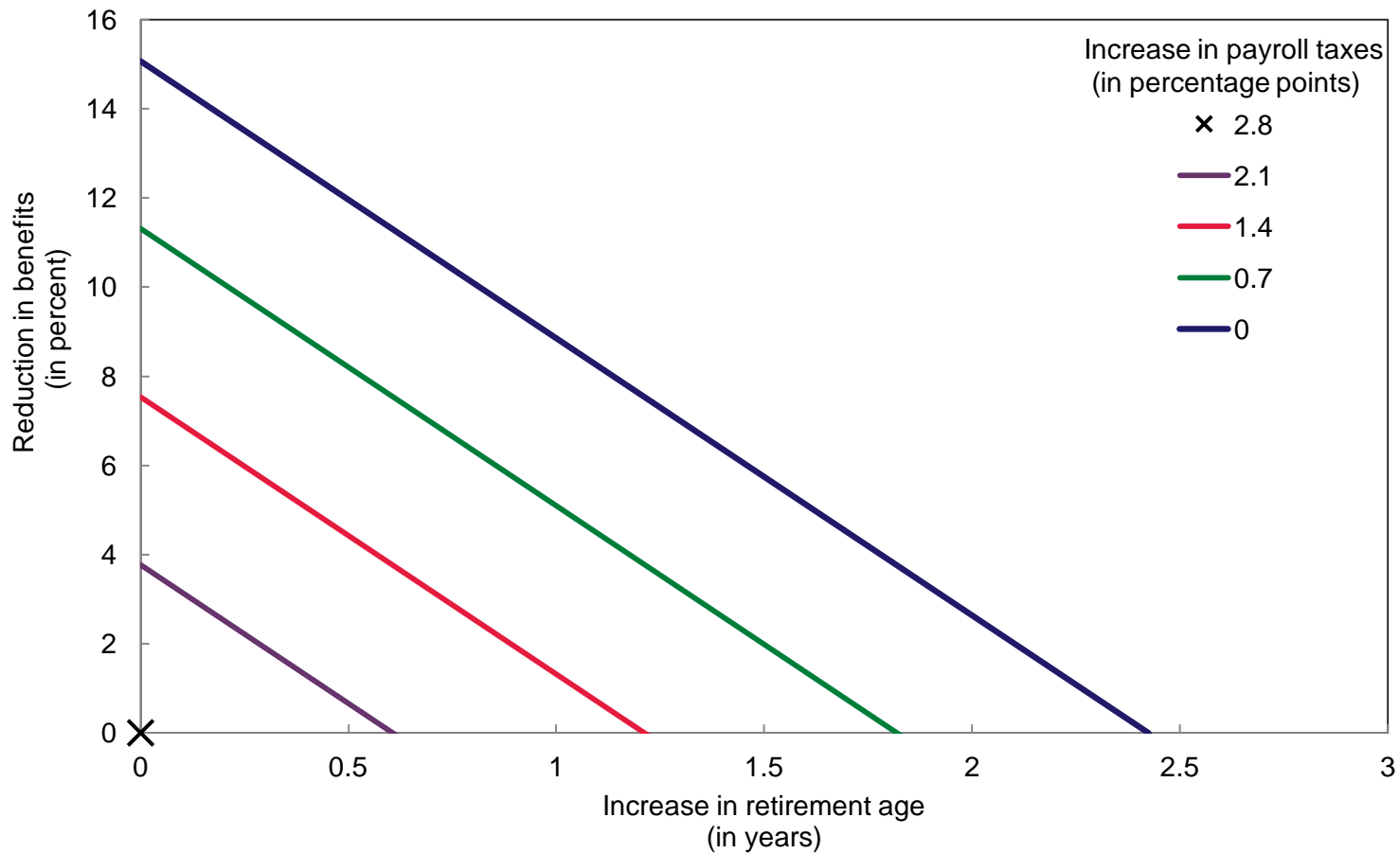
Advanced economy reform options

- ❑ **Gradually raising retirement ages is an attractive option**
- ❑ **Reductions in replacement rates could be considered where they remain high**
- ❑ **Increased payroll contributions could help offset increases in pension spending**

Advanced economies: options to stabilize pension spending



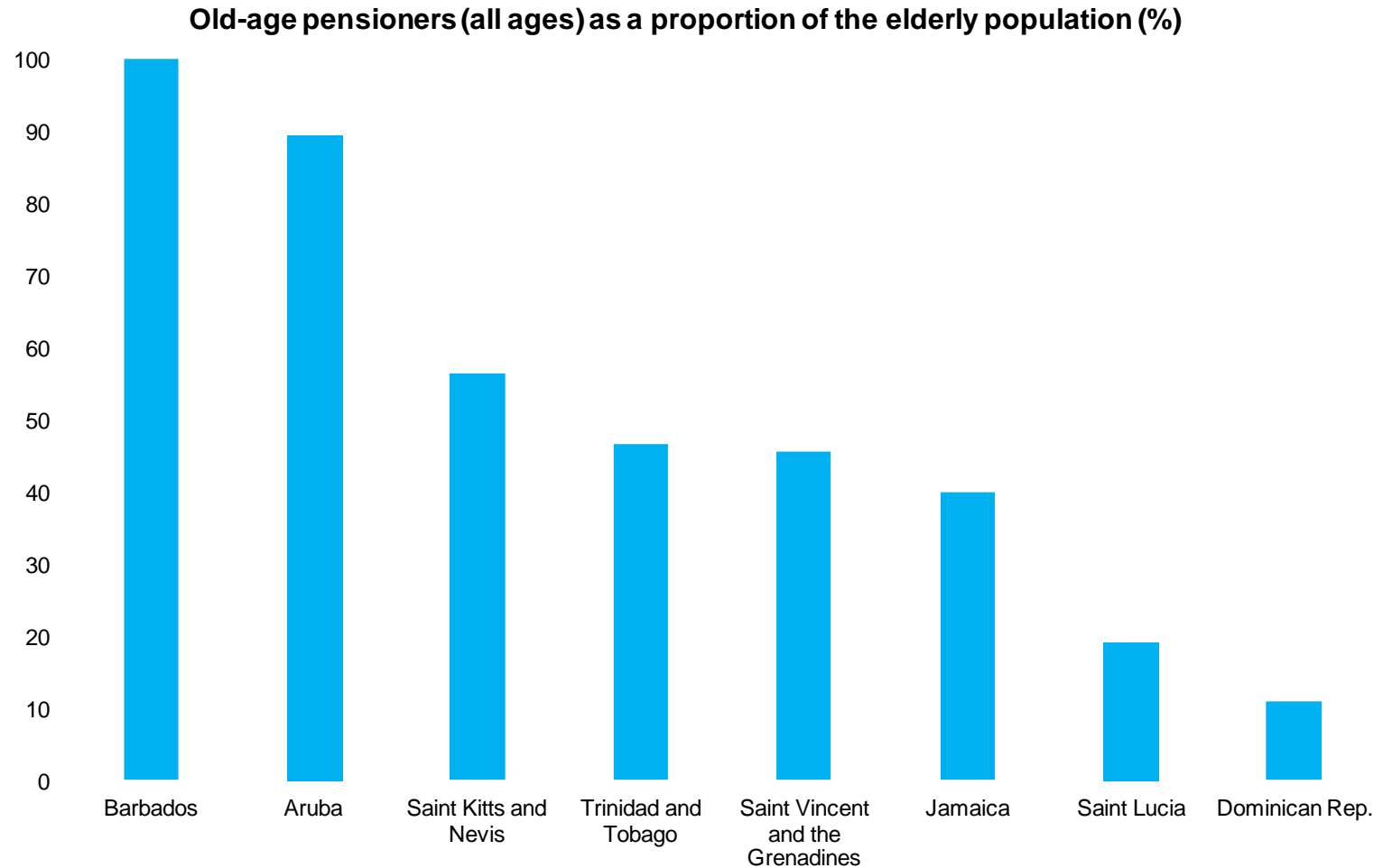
Tradeoffs Across Reform Options to Stabilize Spending, 2010–2030



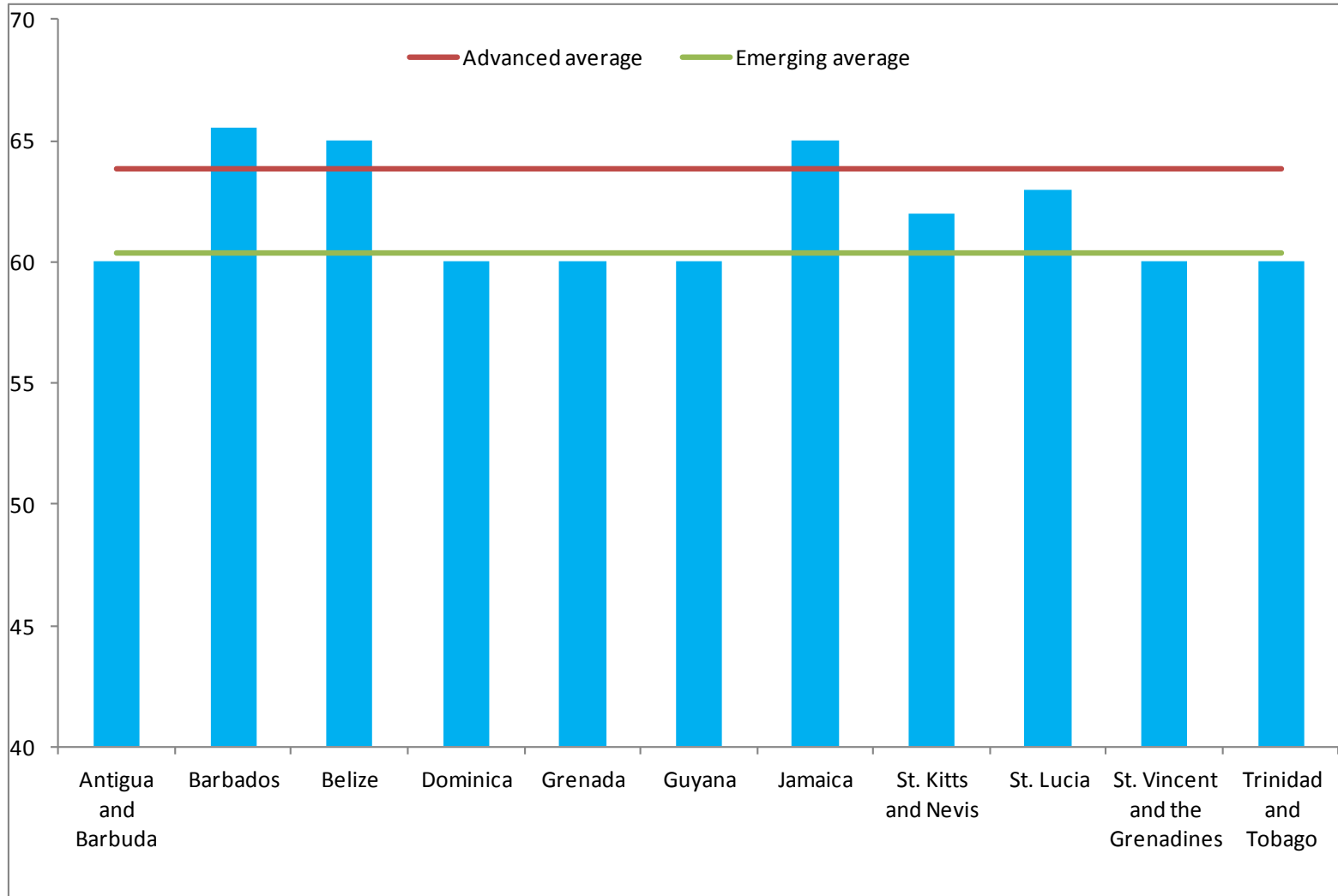
Emerging economy pension reform options

- ❑ In emerging Europe, increases in retirement ages and other parametric reforms could be considered
- ❑ In other emerging economies, challenge is to expand coverage in a fiscally sustainable manner
- ❑ Non-contributory “social pensions” could be considered in countries with low coverage

Pension Coverage in the Caribbean



Retirement age in the Caribbean





Public pension reform in the Caribbean

- ❑ **Public pension coverage is low in some countries, but the expansion should be done in a fiscally sustainable manner**
- ❑ **Increases in retirement ages and other structure reforms could help improve fiscal sustainability of public pensions, and also generate fiscal space for expanding coverage**
- ❑ **Other reforms include reducing administrative costs and improving the benefit formulas**